THIS WEEK

NEWS

7 Upscale operators boost sales with home delivery
7 Demise of Soviet Union spells chaos for operators

FOOD

11 Fabricant/Caviar still makes a nice profit
11 What's Hot in Philadelphia
11 Food News Digest

MARKETING

12 IHOP hopes everyone will remember Cliff's name
12 Ad Watch
12 Golden Fried Chicken kicks off NFL promo
12 Hardee's transfers Midwestern account
12 Domino's launches educational fund
12 Big Boy teams with hospital for promo

FINANCIAL

14 Hamburger Hamlet turns to IPO to wipe out debt
14 Food Price Outlook
14 Fact File
14 General Mills restaurants' profits up
14 Outback profits, sales soar
14 Ark's '91 net jumps 50%
14 Lower costs buoy GB's 3rd-Q profits

COAST TO COAST

18 Chains take ethnic foods to American mainstream
18 Hayes/Rookie takes on Louisville with Pasta Pizzazz
18 Coast to Coast Digest

SUPPLIER NEWS

54 Tyson names inductees to Chairman's Circle
54 Calif. Avocado Commission rolls "Advantage" program
54 Supplier Digest

OPINION

21 Positive leadership crucial for 1992

1992 FORECAST & TRENDS

25 Outlook for 1992

OPERATIONS

22 Hochstein/Oyster-wine taste-off produces surprise winners
56 Patterson/Finding help in unconventional equipment

FEATURES

21	Letters	60	Book Digest
22	Side Dishes	62	Calendar of Events
58	On the Move: Restaurant People	76	Advertiser Index
		76	Subject Index

NRN DIRECTORY

For complete directory, see **page 21.**

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NEWS BRIEFS

California restricts '92 workers comp rate hike to 1%

SACRAMENTO, Calif. — Restaurant and hotel operators in California will pay 1 percent more for workers compensation insurance in 1992, following the state insurance commissioner's rejection of a proposed 12.4-percent increase for the average policy.

Commissioner John Garamendi restricted the average rate hike for all industries to 1.2 percent, effective Jan. 1 for new coverage or on the anniversary date of renewing policies. His decision came after the California Restaurant Association rallied hospitality employers to protest the increase sought by the insurance industry.

Restaurants will pay a new rate of $7.83 per $100 of payroll, up from $7.75 last year, while hotels will pay $13.10, up from $12.97.

Outback merges with South Florida joint partner

TAMPA, Fla. — Outback Steakhouse Inc., a 49-unit casual steak-house chain based here, has inked an agreement to merge with its seven-unit joint venture partner, American Restaurants of South Florida Inc.

The deal calls for American Restaurants to be merged into the company, while Outback issues 510,000 shares of its common stock in exchange for all of the outstanding shares of American Restaurants.

Outback has also filed a public offering with the Securites and Exchange Commission for 1,950,000 shares of common stock, which has yet to be approved.

Pizza Hut launches new ad campaign

NEW YORK — Abandoning a controversial Domino's-bashing approach and 4-year-old "Making it great" tag line, Pizza Hut has rolled out its new national advertising campaign, featuring "Queen of Soul" Aretha Franklin.

Although the new campaign focuses on Pizza Hut's delivery services, the Wichita, Kan.-based company has dropped its blatant attack on Domino's. Over the past year the PepsiCo-owned pizza chain aired commercials that featured actors portraying Domino's employees eating Pizza Hut pizza.

Franklin supports Pizza Hut's delivery push in 60-, 30- and 15-second spots by singing "Deliver Me" to the tune of the hit song "Rescue Me."

To support its dine-in and carry-out services, Pizza Hut is also airing two separate 30 second segments without Franklin. "Bad Dinner" and "Boring Party" launch the company's new "Hit the Hut" theme line, which replaces the longstanding "Making it great."

The spots were created by BBDO here.

Calif. Court ruling adds to state's financial turmoil

SAN FRANCISCO — A California Supreme Court ruling that certain tax-raising ballot measures must win by a two-thirds vote could worsen the already weakened financial condition of state and local governments and have a negative impact on the hospitality industry.

Last year California lawmakers considered but discarded several new taxes or special fees aimed at the hospitality industry while eliminating a $14 billion budget shortfall.

Analysts are predicting another shortfall of several billion dollars if the recession does not end in the first half of the year, and the Supreme Court ruling, which has the potential of denying billions of dollars in tax revenues to indebted public agencies, is likely to lead to new calls for new business-related taxes and fees.

In a 5-2 decision, the court ruled that a half-cent sales tax increase in San Diego County in 1988, which was devised to raise money for jail construction, was illegal because it was approved by a simple majority of voters.

Mich. Legislature approves 1% tax on prepared meals

LANSING, Mich. — The Michigan House and Senate has passed a bill that will allow six state counties to impose a 1-percent tax on prepared meals in order to fund special projects.

The bill, HB 5300, gives Muskegon, Kent, Ingham, Washtenaw, Oakland and Wayne counties the right to ask voters to approve financing for sports arenas or convention centers. The issue will be placed on Michigan's March 17 presidential primary ballot.

In addition to the meal tax, HB 5300 includes a 1-percent tax on hotels rooms and a levy of 2 percent on rental cars.

Koo Koo Roo inks Southeast deal with Sector

ISELIN, N.J. — Koo Koo Roo Inc., the 14-unit fast-food chain that features flame-broiled skinless chicken, has inked an agreement with Sector Associates Ltd. for opening Koo Koo Roo units in Georgia and Florida.

The deal calls for Coral Gables, Fla.-based Sector to build and operate 33 Koo Koo Roo restaurants over a three-to-five-year period in the Atlanta, Orlando and Tampa/St. Petersburg markets. Koo Koo Roo — which went public four months ago — owns and operates nine restaurants in California and New York and franchises five other units in Florida, California and Nevada.

Koo Koo Roo's latest company restaurant is about to open in the Taj Mahal Hotel and Casino in Atlantic City, N.J.

Long Island town battles McD Unit

SOUTHHOLD, N.Y. — McDonald's plan to build a restaurant in this rural Long Island farming community has touched off a bitter dispute among residents.

Tempers flared during three hearings that resulted in the zoning board of appeals giving McDonald's approval to build a restaurant but denying its request for a special permit for a drive-thru window. Since the window generates a high percentage of a typical unit's profits, opponents were hoping that the restriction would force the hamburger giant to scuttle the plan altogether.

Supporters argued that McDonald's would generate new jobs and serve as a source of new taxes.

McDonald's presented plans to build a Cape Cod-style restaurant to harmonize with the dominant architecture of the town and said it would arrange to cart its own trash.

Survey predicts travel spending rebound in 1992

NEW YORK — Vacationing Americans will take about as many leisure trips in 1992 as in 1990, according to a nationwide poll, which predicts an easing of last year's concerns about war and the onset of a recession.

Eighty-one percent of 750 randomly chosen respondents to the November telephone survey said they plan to take an average of 1.7 vacation trips by air or cruise ship this year, a level approaching travelers' 86-percent response in 1990 and a rebound from sharp declines in 1991.

"That's a hopeful sign for the industry and a shot in the arm for the sluggish U.S. economy," said Bill Colon, a senior vice president for Fleishman-Hillard Inc., a public-relations and travel marketing firm. The company's poll also found that 30 percent of vacationers plan to travel abroad this year, compared with 32 percent in 1990.

Pleasure travel planned by those polled declined 13 percent last year, with foreign travel off 25 percent from 1990 levels.

Judge approves Days Inns sale

NEW YORK — A judge overseeing the operations of Days Inns has approved the bankrupt lodging chain's sale to Hospitality Franchise Systems, a holding of the Blackstone investment group.

The decision by bankruptcy court judge Helen Balick clears the way for Days to become a sister chain of Ramada Inns. Hospitality Franchise Systems acquired the franchise rights to Ramada several years ago.

Hospitality Franchise Systems, which is headed by former Arby's president Frank Belatti, had originally bid $250 million for Days, one of the nation's larger moderate-price lodging chains. It recently sweetened the offer by $50 million.

FINANCIAL NEWS

Hamburger Hamlet turns to IPO to wipe out debt

by Robin Lee Allen

SHERMAN OAKS, Calif. — Hamburger Hamlet Restaurants Inc. is selling itself to the public in an effort to eradicate debt and fuel future growth.

The 26-unit casual hamburger chain recently issued 2.5 million in common shares priced at $11.50, or $50 million in the aggregate, reversing a 1988 management-led leveraged buyout. First Boston Corp. and Dean Witter Reynolds underwrote the initial public offering.

Proceeds from the offering will be applied to the debilitating $27.9 million debt left over from the LBO.

Hamburger Hamlet was compelled to make the offering after its primary lender withdrew financial support and the tight credit market made new support difficult to garner, explained Tom McFall, the company's chairman and chief executive.

"The public market just made more sense," McFall said. "We were public once, and we have the growth lined up very specifically for the next two years. It was time to get going." Company directors and officers purchased 23 percent of the outstanding common stock, giving them a significant impact on the company's future direction, according to a prospectus filed with the Securities and Exchange Commission.

Hamburger Hamlet's IPO is one of many restaurant offerings that have flooded Wall Street in 1991. Scarce bank financing and the desire to retire debts and grow have enticed such companies as Au Bon Pain Co. Inc., Bertucci's Brick Oven Pizzeria and Outback Steakhouse Corp. to go public in the search for cash.

These stocks have generally done well in the year's predominantly bullish stock market. Many restaurant companies are still posting earnings despite the recession, and investors are increasingly drawn to small capitalization stocks, analysts said.

Hamburger Hamlet, however, fell victim to the market's unpredictability. Because of its recent lethargy, the stock began trading at $11.50, the lower end of its $11-to-$13 range.

Founded in 1950, Hamburger Hamlet is a full-service lunch and dinner concept featuring gourmet hamburgers, rotisserie and grilled chicken, assorted sandwiches, salads, soups and chili. Alcohol is also available. The average customer ticket is $9.25, McFall said. Average store revenues in 1990 were about $2.2 million.

Stores are concentrated in three core markets: Los Angeles; Chicago; and Washington, D.C. The majority of stores, 17, are situated around Los Angeles. There are five around Washington, D.C., and two around Chicago.

The company also has two upscale concepts: Portner's in Washington, D.C., and Hamlet Gardens in Los Angeles. All stores are company-owned.

The original company, Hamburger Hamlet Inc., went public in 1969 and had grown to 20 restaurants by 1982. That growth was stalled from 1982 until 1988 when the company founders, who controlled more than 70 percent of the stock, decided to diversify into different concepts. In 1988 an investor group, including some management members, decided to acquire the company and take it back to basics.

"We took the first 18 months of the buyout period to go back and renovate stores," McFall said. The new owners also opened 10 Hamburger Hamlets.

Despite annual revenue growth, interest and other debt-related expenses have kept the company reporting net losses since the LBO in 1988. However, Hamburger Hamlet narrowed its net loss to an unaudited $233,000 for the 39 weeks ended Sept. 29, from $427,000 for the same period of last year. The company's accumulated deficit as of Sept. 29 was $3.3 million. Revenues for 1990, the last full fiscal year, were $48.4 million.

In the 39 weeks ended Sept. 29, Hamburger Hamlet reported unaudited revenues of $39.5 million, up 9 percent from the figure for the same year-earlier period. Two restaurants opened during the same time frame contributed greatly to the increase. Same-store sales were stagnated by the Persian Gulf war but rose slightly in later months, McFall said.

Once the company's debt is eliminated, officials will concentrate on expanding the Hamburger Hamlet chain within its core markets, McFall said. The company anticipates opening five new restaurants during the next year and at least four per year thereafter, according to the SEC prospectus. No plans have been made to franchise.

FOOD PRICE OUTLOOK

World green coffee prices fall

by Patt Patterson

World **coffee** prices have fallen to lows not seen for many years. A combination of good harvests and the failure of the International Coffee Organization to impose a quota system on producing countries has brought prices down. Lower prices will not immediately hit operators, because most roasters bought in their winter and spring supplies some months ago, before the current slide in prices.

Cocoa prices, on the other hand, have moved well above last year's depressed pricing. That affects not only the costs of cocoa beverages but all chocolate products. A major factor in the rise is said to be the aging of the world's cacao groves. Production tapers off after cacao trees, which produce the seeds used in making cocoa and chocolate, reach a certain age. Political uncertainty and warfare in many cocoa-growing regions has prevented the normal tree replacement.

Frozen orange juice concentrate prices are about 10 percent to 12 percent above last year's at this time, but it doesn't look as if there will be any further increases. Florida has been freeze-free, and Brazilian sources are said to be planning to hold current price levels. The use of chilled juice is steadily increasing, both in foodservice operations and in the home. Each year, for the past five, the amount of chilled juice has increased, and the amount of frozen concentrate has dropped.

Look for tight **apple juice** supplies. Demand for bottled and canned juice and frozen concentrate has increased. A large amount of this year's apple production went to the fresh market, less to juicers. Imported concentrate shipments were also down. Prices are expected to rise.

Pineapple juice prices are lower because of promotional discounts offered distributors and direct buyers through the end of this month. Supplies this year seem to be better than for several previous seasons.

FACT FILE

Keep on feedin'!

(No. of customers per day at a single unit of these selected chains)

Cracker Barrel	1696
Ryan's	1292
Shoney's	1168
Buffets	1005
Spaghetti Warehouse	989
Regas Grill (Brinker)	959
Quincy's (TW)	950
Bakers Square (VICORP)	923
Village Inn (VICORP)	869
Denny's (TW)	823
Chili's (Brinker)	753
Macaroni Grill (Brinker)	738
Sizzler	734
Pizzeria Uno	698
IHOP	660
Bertucci's	623
Applebee's	621
Outback Steakhouse	442
Chart House	233

Source: Montgomery Securities

FINANCIAL DIGEST

General Mills restaurants' profits rise 2%

MINNEAPOLIS — General Mills said its Red Lobster and Olive Garden chains reported a combined 2-percent rise in operating profit, to $27 million, on a 16-percent rise in sales, to $580 million, for the second quarter ended Nov. 24.

While the conglomerate does not break out its chains' individual performances, GM said Olive Garden's profits surpassed last year's, while Red Lobster's check average rose and margins improved. Both Olive Garden and Red Lobster reported small gains in average unit sales for the quarter.

At the half-year mark, GM said the restaurant division's year-to-date sales had increased 15 percent, to $1.2 billion, but that operating profit had dropped 7 percent, to $74.4 million.

Outback's profits, sales soar

TAMPA, Fla. — Lower food costs and new restaurants led to a 134-percent rise in Outback Steakhouses' net income, to $1.2 million, on a 78-percent rise in revenues, to $10 million, for the third quarter ended Sept 30.

As a result of the company's strength, Outback's board of directors declared a 3-for-2 stock split, to be effected as a stock dividend.

The company said same-store sales exceeded expectations, rising 6 percent at a time when commodity prices fell, boosting margins.

For the nine-month period, Outback's revenues rose 73 percent, to 27.9 million. Earnings were $3 million, vs. $1.7 million in the year-ago period.

Year-to-date systemwide sales skyrocketed to $62 million on a base of 38 restaurants. In the comparable period of a year ago, systemwide sales were $22.6 million.

Ark's F '91 net jumps 50%

NEW YORK — Ark Restaurants said net income had jumped 50 percent for the year ended Sept. 28, to $1.1 million, on a 6-percent rise in revenues, to $51 million.

Despite posting gains in a down market, Ark warned that the recession in the Northeast is bound to impact sales adversely during the first and second quarters of 1992. In addition, the company is projecting operating losses stemming from its newest restaurant, Sequoia, in New York.

For the fourth quarter, Ark said it overcame a year-ago loss of $83,000 to post net income of $132,000 on a 3-percent rise in revenues, to $13.1 million.

"This is a good result in a very harsh economic environment," said Michael Weinstein, president, in a statement. "However, we have not yet seen signs of relief from the recession. We therefore anticipate continued unsatisfactory sales in our fiscal first and second quarters."

Ark owns and operates 25 restaurants and bars in New York, Boston, and Washington.

Lower costs buoy GB's 3rd-Q profits

ANAHEIM, Calif. — GB Foods said lower labor costs and other efficiencies led to a 90-percent gain in net income, to $24,961, on an 82- percent gain in revenues, to $2.7 million, for the third quarter ended Sept. 30.

Contributing to the lowered expenses were reduced food costs resulting from the chain's new commissary. GB Foods said it also realized savings from a more effective labor management.

For the nine months year-to-date, GB Foods reported $269,078 in net income on revenues of $7 million. A year ago the company reported a profit of $120,666 on revenues of $2.8 million.

GB Foods owns and operates nine of the 43 units in the Green Burrito restaurant chain, a limited-service operation in the Tex-Mex segment.

OUTLOOK FOR 1992

Sales outlook darkens as economy slips, recovery hits wall

by Peter Romeo

WASHINGTON — Hopes for a modest upturn in foodservice sales this year have been dimmed by reports that the economy has lapsed back into a recession.

A number of forecasters and business leaders are now warning that general economic conditions could worsen before a recovery resumes, darkening an already gray outlook for restaurants.

"For most operators, getting through the first quarter is going to be a real challenge," says Ron Paul, president of Technomic Inc., a leading foodservice research concern. "On the part of the individual operator out there, there's a real concern, a fear bordering on panic. It's going to be a tough, tough, tough quarter."

Counterbalancing those worries are indications that President Bush and Congress may take bold steps to snap the economy out of its lethargy. Among the measures being eyed in Washington are tax cuts that would immediately put more dollars in consumers' hands.

> A number of forecasters and business leaders are now warning that general economic conditions could worsen before a recovery resumes.

"We're going to see a lot of things done by Dr. Bush to improve the economy's health, and that could help foodservice," Paul explains. "It's certainly not going to hurt."

Other observers, including the National Restaurant Association, have asserted that there is no need to dampen expectations for the coming year. They have stuck with their predictions that 1992 will be a year of modest yet appreciable improvement in the economy as a whole and the foodservice industry in particular.

Nevertheless, mounting evidence of a setback in the nation's economic recovery has prompted Technomic to reconsider its already guarded outlook for foodservice this year. "We're going to be taking our sales numbers down," said Paul.

Last September, in a report drafted for the International Association of Foodservice Manufacturers, Technomic forecast that industry sales would grow by 1.5 percent in deflated or "real" terms, to $275.54 billion. That growth, though modest, would have been a marked improvement from the 0.9-percent real gain that the industry squeezed out of 1991, Technomic noted.

However, the concern's predictions for 1992 were predicated on a gradual but continuing recovery of the economy — an assumption that has been called into question by a spate of reports in recent week.

For instance, a group of economists recently warned that the gross national product would shrink by 1 percent during the first quarter of 1992 after slipping 0.2 percent during the September-through-December period of last year. According to the weeks-old report from the University of California at Los Angeles' Business Forecasting Project, the setback could be far more severe for the West Coast.

"The upturn in business activity that began earlier this year has clearly faltered," Alan Greenspan, chairman of the Federal Reserve Board, told a congressional committee that convened hearings in mid-December to evaluate the economy's status. "It is apparent that the economy is struggling and that there have been some strong forces working against moderate cyclical revival."

Even the White House has added its voice to the chorus of dire economic reassessments. After months of insisting that the economy was in a slow but steady recovery, the Bush administration recently acknowledged that "for all practical purposes, the recession continues."

Samuel Skinner, the president's new chief of staff, has described the national economic picture as "staggering."

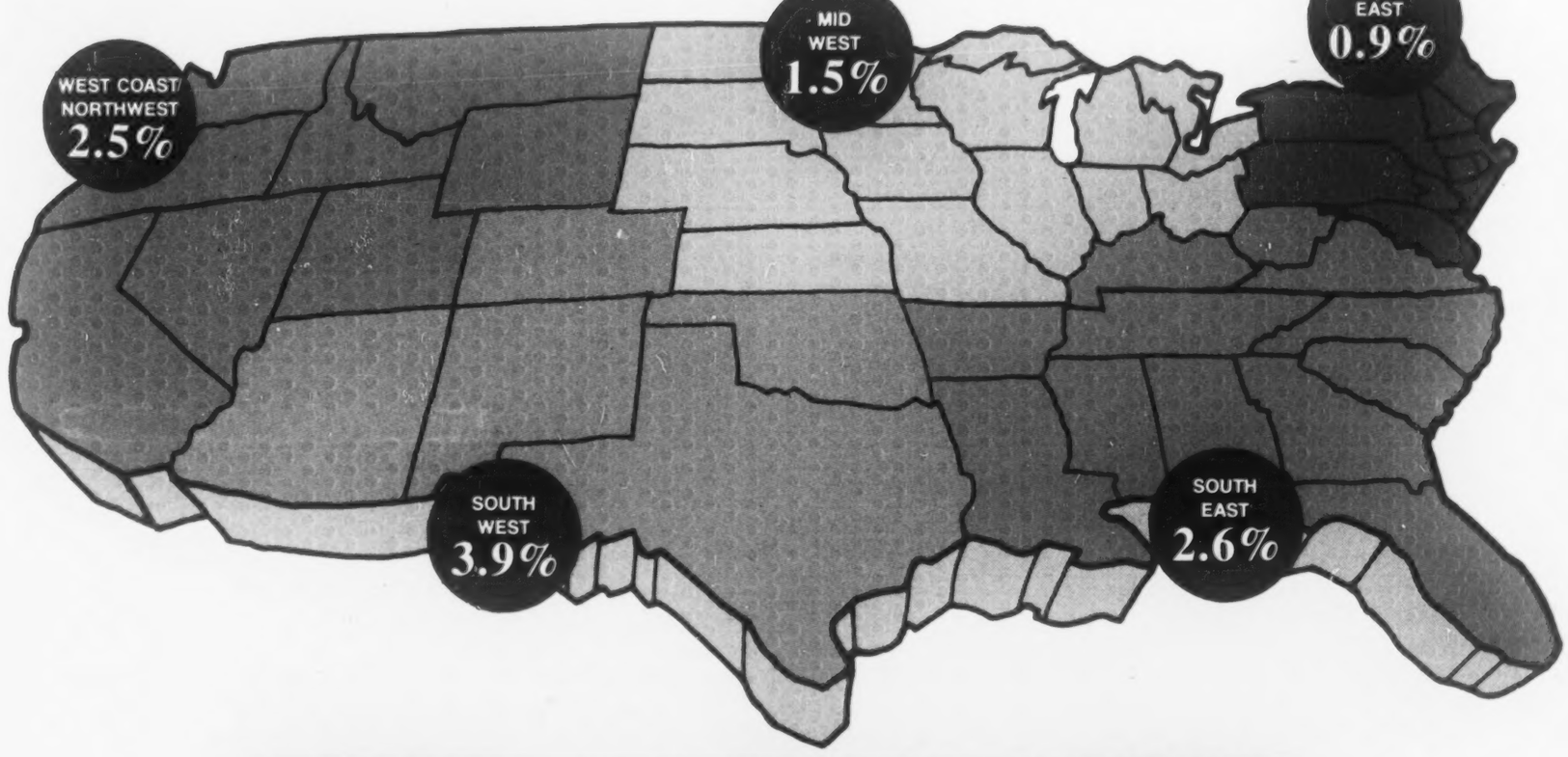
In light of those downbeat revisions, Technomic could shave the projections of its '92 Forecast & Outlook "by a few tenths of a point," Paul explains. "We were just seeing so many bad numbers coming out."

NRA is more optimistic

Authors of the industry's other major sales prognostication, the NRA's Forecast '92, say they do not plan to revise their numbers. Issued in December, their report is slightly more optimistic than Technomic's study, with total sales predicted to grow in real terms by a modest 1.8 percent, to $262 billion, after inching upward just 0.5 percent in '91.

The NRA projected even larger 1992 real-sales gains for fast-food places (2.6 percent), contract feeders (3.6 percent) and in-store restaurants (3.7 per-

(See OUTLOOK, page 26)



REGIONAL OUTLOOK
(Projected real sales growth)

Source: National Restaurant Association, Regional Economic Projections Series

The foodservice industry's financial performance will vary widely from area to area in 1992, as it did last year. Following is a region-by-region look at operators and forecasters' expectations for the year ahead.

The foodservice industry's financial performance will vary widely from area to area in 1992, as it did last year. Following is a region-by-region look at operators and forecasters' expectations for the year ahead.

NORTHEAST ..... Page 30
SOUTHEAST ..... Page 32
SOUTHWEST ..... Page 34
WEST COAST ..... Page 38
NORTHWEST ..... Page 43
MIDWEST ..... Page 44

Commodities outlook ..... Page 26
Segment-by-segment forecast ..... Page 26
Operator survey ..... Page 50

Outlook for 1992

(Continued from page 25)

cent). And the association's researchers see nothing within the recent round of economic reassessments to warrant a change in those figures, either.

"What we're seeing is a lot of volatility in consumers' perception of what's going on in the economy," says Susan Mills, the NRA's research director and an author of Forecast '92. "But the economic numbers themselves don't look that bad."

For instance, Blue Chip Economic Indicators, a forecast based on input from more than 50 economists, is still calling for a 2.7-percent real growth in the gross national product during 1992. The GNP declined by 0.3 percent last year.

In addition, the NRA expects recent subtle economic changes to have a disproportionately favorable impact on foodservice this year.

For instance, many homeowners refinanced their mortgages during 1991 to secure lower interest rates. As a result, monthly housing payments will be smaller this year for thousands of Americans.

"Because of all the refinancing, we could see as much as $50 billion freed up for spending," explains Malcolm M. Knapp, president of Malcolm M. Knapp Inc., the New York research company that worked with the NRA to develop its forecast. "The changes aren't going to be big enough to pay for big-ticket items, but they will free up a few more dollars for foodservice."

Similarly, "if there are any tax cuts next year, they may amount to nothing more than consumers' having an extra buck a day," Knapp says. "So they're not going to run out and buy some capital goods. The money's going to disappear into their regular spending patterns, which include dining out or getting take-out."

Nevertheless, the NRA cautions in its forecast that "a weaker recovery, or even a temporary return to recession, could occur if consumers' anxieties grow about their employment situation, income or debt loads." Gloomy economic reports could trigger those fears.

Pent-up demand

The NRA's guarded hopes for 1992 stem in part from statistical evidence that Americans are yearning to dine out more frequently. In a survey conducted last year for the association by the Gallup Organization, consumers were asked if they would like to buy more of their meals from restaurants. Twenty-seven percent of all respondents said yes.

"Consumers told us that they would eat out more often if they had the cash to do so," the NRA's Mills says. Even a slight economic recovery would allow more persons to indulge that "pent-up demand," she explains.

"We're a little more optimistic than we have been because we're looking for a real improvement in the economy," Mills remarks. "The big thing is that we're expecting some growth in real disposable income," the dollars that consumers set aside for discretionary spending.

The NRA expects real disposable personal income to rise by 2.4 percent, as predicted by Blue Chip Economic Indicators. In contrast, consumers' spending power declined by 0.3 percent in '91, according to Blue Chip.

Technomic's unadjusted forecast hinges on a 2.6-percent rise in real disposable income.

Expansion to moderate

In Forecast & Outlook, Technomic notes that the growth in foodservice sales this year probably would be outstripped by the increase in the number of units vying for the dining-out dollar.

"New stores are continuing to open," Dennis J. Lombardi, Technomic's executive vice president, said in revealing the concern's 1.5-percent growth forecast at an IFMA gathering in New York. "The impact [of that slight sales gain] on one existing store could be even worse."

Fortunately, according to Paul, the rate of unit expansion is at least abating.

"We'll see two or three [percentage] points of growth, not the four or five points that we saw in past years," he said. "Financing just isn't there for restaurants any more."

"The entrepreneurial guy with two or three units may have to postpone opening that third or fourth unit," Knapp observes. "Banks aren't lending the money any more."

In addition, the NRA notes in Forecast '92 that many restaurant chains want to open the bulk of their new stores overseas, where competition is below that in the United States.

FOODSERVICE SALES FORECAST FOR 1992

	Sales (in billions)		Real growth	
	1992	1991	'92 vs. '91	'91 vs. '90
Eating places				
Restaurants	$ 83.23	$ 79.19	1.3%	0.9%
Fast-food places	78.28	73.57	2.6	2.0
Commercial cafeterias	4.81	4.57	1.6	1.0
Social caterers	2.55	2.38	3.5	2.8
Ice-cream, frozen-treat places	2.14	2.06	0.0	(0.4)
Total:	171.02	161.77	1.9	1.4
Bars, taverns	8.73	8.55	(2.7)	(7.6)
Food contractors				
Industrial sites	4.13	3.85	3.7	NA
Office buildngs	1.40	1.31	3.0	NA
Health-care sites	1.96	1.82	4.0	NA
Colleges, universities	3.42	3.17	3.4	NA
Schools	1.37	1.29	2.6	NA
Airlines	1.79	1.60	5.8	NA
Recreational sites	2.07	1.95	2.6	NA
Total:	16.15	14.99	3.6	NA
Lodging places	15.04	14.29	1.5	NA
In-store restaurants	11.44	10.64	3.7	NA
Recreation, sports sites	3.13	2.97	1.7	NA
Others	6.64	6.26	2.6	NA
TOTAL COMMERCIAL	232.15	219.47	1.9	0.5
Institutional market				
Employee feeding	1.92	1.87	(1.2)	NA
Schools	3.90	3.75	0.2	NA
Colleges, universities	4.37	4.21	(0.5)	NA
Transportation sites	1.43	1.28	7.2	NA
Hospitals	9.96	9.43	1.8	NA
Nursing homes	4.09	3.97	2.0	NA
Clubs, sports camps	2.36	2.25	1.5	NA
Community centers	0.78	0.72	7.0	NA
TOTAL NON-COMMERCIAL	28.80	27.48	1.4	NA
Military	1.04	1.05	(4.2)	(5.3)
GRAND TOTAL	262.00	248.00	1.8	0.5

Source: National Restaurant Association

NA = Not available

> "What we're seeing is a lot of volatility in consumers' perception of what's going on in the economy. But the economic numbers themselves don't look that bad."

Outlook good for food prices in 1992

by Patt Patterson

> Foodservice operators should see price increases overall for the foods they use remain about even or slightly lower than the rate of inflation for this year.

Most agricultural economists agree: Food prices during the year are expected to grow at a rate of about only 3 percent, similar to the past year, and well below the 5.8-percent posted in both 1989 and 1990. However, participants in this year's annual agricultural outlook conference of the U.S. Department of Agriculture emphasized that's an average, and prices of individual foods may range far wider than the average.

Beef prices are expected to average near or slightly below 1991 levels. **Veal** prices are expected to continue to climb. Look for 3-percent-to-6-percent increases.

Pork prices are expected to drop, as much as 12 percent below the prices averaged in 1991. **Lamb** prices are expected to range from near 1991 levels to slightly higher.

Poultry prices are expected to average somewhat lower than they did in 1991, although by the second quarter, turkey prices are expected to move up from their level during the last quarter of 1991. Expect overall price decreases of from 1 percent to 2 percent for broilers. Export demand may determine final pricing, particularly for broiler parts. **Egg** prices may decline slightly from 1991, but there will be seasonal variations caused by changes in both supply and demand.

Seafood prices are expected to remain at or near levels established in 1991. There is no evidence that cod, flounder, halibut and crab prices will decrease much if any from the high levels of the past few years.

Lower prices of **domestic farmed catfish** are expected to drop, at least temporarily. However, some analysts expect them to rise as the year gets under way.

Shrimp prices are expected to remain fairly stable during 1992.

Dairy products overall should increase a little. **Milk** is expected to stay near the same price levels it reached in the fourth quarter of 1991. Expect overall increases of from 1 percent to 3 percent. **Cheese** prices, especially for specialty cheeses, may drop from 1991 fourth- quarter levels. Price volatility hasn't been ruled out, however, and cheese prices could swing up again.

Fresh vegetable prices are difficult to estimate, since there are so many factors that affect supply and demand. In general, expect desert-grown vegetable prices to have a great deal of fluctuation during the first quarter. That could mean both higher and lower prices than the seasonal averages. By the second quarter levels should return to a more normal range.

Fresh orange prices will likely remain high during 1992, tending to hold at last year's levels. Apricot prices are expected to rise although most other stone fruits should be at or below last year's levels.

(See COMMODITIES, page 46)

NORTHEAST

by Paul Frumkin

While most regional foodservice executives agree that the long-anticipated economic recovery in the hard-hit Northeast is still many months away, several say that 1992 holds some promise for the stronger, well-capitalized operators.

Buoyed by a modest upturn in sales during the final quarter of last year, operators believe that the deep and stubborn recession that has been hammering away at the Northeast for the past few years has largely bottomed out and will remain flat throughout most of the year.

But while sales growth in 1992 is expected to be sluggish at best, several executives predict that the next 12 months will offer unparalleled expansion opportunities for those fiscally sound operators who choose to take advantage of them.

"The opportunities in 1992 will be exceptional for strong operators," says Edward Grace III, president of the East Providence, R.I.-based Phelps Grace Co. Inc.

Nevertheless, Grace adds, "for weak operators, they're going to be trying times."

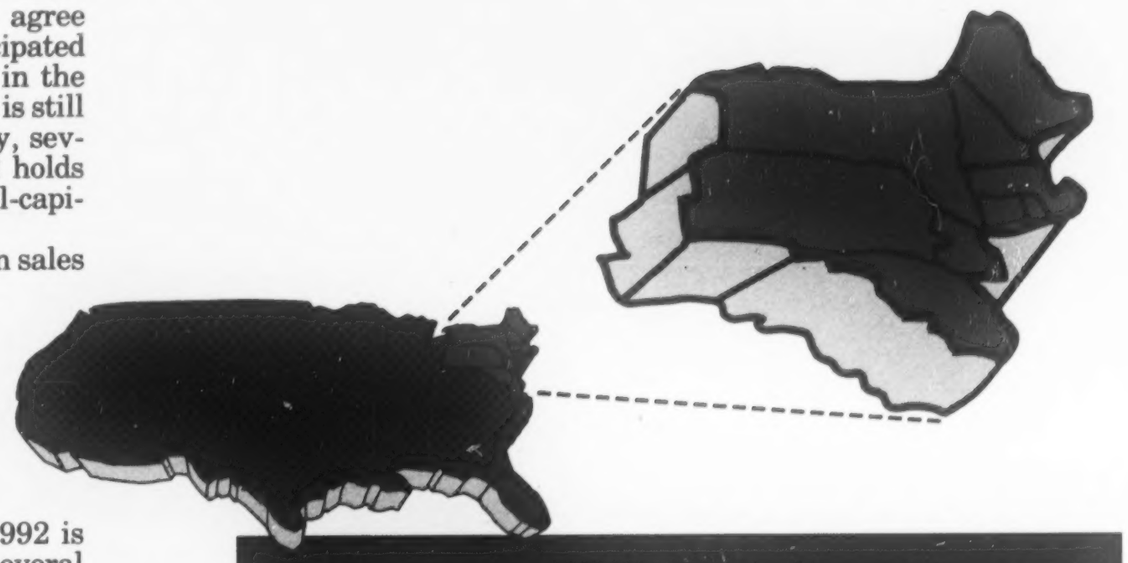
In fact, executives indicate that unless consumer confidence rebounds to a healthier level, the weeding-out process that began here in the late 1980s is bound to continue unabated throughout the year. "The weak will fail and fall away," declared Dennis Riese, president of the Riese Organization in New York City. "I think we'll see more of a shakeout."

Operators mostly concurred that the dominant trend of 1992 indeed would be "the strong get stronger and the weak get weaker." And the weak, in this case, are expected to come chiefly from the ranks of the beleaguered fine-dining segment. As an economically anxious American public continues to pursue its policy of restrained spending, a large number of high-ticket restaurants will be forced to either conform to a more price-sensitive marketplace or go under.

"It's difficult to say whether fine dining will ever fully recover from this recession," observes Ronald Gorodesky, president of Restaurant Advisory Services, a Wayne, Pa.-based restaurant consulting firm.

According to some sources, however, the upcoming year may eventually hold the seeds of recovery for elements of the foodservice industry in the Northeast. The National Restaurant Association's Foodservice Industry Forecast for 1992 projects that sales for eating places in the New England region will increase 5.3 percent — or 1.5 percent in "real" terms. Real growth for the Middle Atlantic states — which includes New York, New Jersey and Pennsylvania — sales are expected to grow by 0.6 percent, according to NRA figures. Real growth for Delaware's eating-places will take a 3.2 percent jump. The only real projected decrease will be a 1.8 percent dip for the District of Columbia — an area which, to date, has fared somewhat better than other areas of the region.

But while most operators and industry observers paint a marginally improved sales picture for 1992, individual reports vary from Maine to Washington, D.C.



NORTHEAST

	Eating place sales 1991 (in millions)	Eating place sales(P) 1992 (in millions)	% Change* (real growth)
Connecticut	$ 2,666.5	$ 2,786.5	0.7%
Delaware	539.5	577.3	3.2
D.C.	910.0	928.2	–1.8
New Hampshire	1,079.1	1,164.4	4.1
Maine	970.0	1,035.0	2.9
Massachusetts	6,020.1	6,321.1	1.2
Maryland	3,507.1	3,685.9	1.3
New York	12,972.7	13,543.5	0.6
New Jersey	5,389.4	5,631.9	0.7
Pennsylvania	7,418.8	7,737.8	0.5
Rhode Island	828.6	863.4	0.4
Vermont	451.3	478.8	2.3
Totals	$42,753.1	$44,753.8	0.9

* "% Change" adjusted to discount projected menu price inflation and represent "real" growth in total Eating Place Sales in 1992.

Source: National Restaurant Association

> "As long as you're well capitalized, you can grow in a dramatic fashion in this economy. We're able to do deals and acquire locations with construction allowances the likes of which we've never seen. Ultimately, we'll be well-situated as we come out of the recession."
>
> — Ronald Shaich, co-chairman and co-chief executive of Au Bon Pain French Bakery Cafe

Ronald Shaich, co-chairman and co-chief executive of 107-unit Au Bon Pain French Bakery Cafe concept based in Boston, is anticipating an "exceptional" year for the newly public company — despite New England's dismal economic climate.

"You can cut the pain of the recession with a knife as you walk down the street here," he comments. "And we're certainly feeling short-term pressures from the loss of jobs in New England. But the expansion opportunities are still phenomenal."

Au Bon Pain, which completed an initial public offering last June, expects to open 22 company-owned stores this year. "As long as you're well capitalized, you can grow in a dramatic fashion in this economy," Shaich continues. "We're able to do deals and acquire locations with construction allowances the likes of which we've never seen. Ultimately, we'll be well-situated as we come out of the recession."

Edward Grace — who operates such restaurants in Rhode Island as Hemengways, Capital Grille and the Old Grist Mill — is also quite bullish on expansion possibilities. "There are some terrific opportunities out there that we hope to take advantage of," he explains. "We're looking to expand in this environment."

Grace notes that in Rhode Island and the Boston area "there are plenty of sites available. Landlords have been humbled."

Phelps Grace, in fact, opened its second Capital Grille, an upscale steak house in Boston in October — a time when many other tablecloth restaurants were suffering. But, Grace explains, "it was a unique opportunity. The landlord had originally been asking $3 million for the location. We got it for $550,000. We were also able to negotiate a $100,000 decrease in the rent."

Restaurant sales, on the other hand, confirm that the consumer remains wary. The 3-month-old Capital Grille is doing about 80 percent of projections. And while Grace notes that he has seen increases at his other restaurants over a year ago, sales vary from week to week, "And then again," he adds candidly, "I wasn't particularly proud of where I was a year ago."

Max Pine, president of Restaurant Associates, the New York-based multiunit operator of mid- and upscale restaurants, observes that he sees signs of improvement in his Northeast business. "We're showing double-digit sales increases in our New Jersey stores," Pine says. "We believe the economy there has stabilized."

Restaurant Associates — which operates 40 full-service restaurants in New Jersey — including Charlie Brown's and the Office — has been strengthening its "value marketing" during the past year, Pine explains. "We've introduced some new items, and improved recipes and presentations on older items. We've also tried some new marketing techniques."

New York City, he notes — where RA operates several upscale operations including Sea Grill, Tropica and Mamma Leone's — is "not as far ahead on a positive trend."

And while Pine says he is confident that business will improve this year, he emphasizes that even the strong operators must be careful. "You just can't raise menu prices," he says. "You have to pre-

(See NORTHEAST, page 44)

SOUTHEAST

by Jack Hayes

Wielding longer menus, lower prices, louder ads and sharper service, operators across the Southeast are hastening their counterattack against an unpredictable recession, which most of them expect will run out of gas by the middle of 1992.

With few exceptions, restaurateurs in every corner of the region are emerging from a year of flattened sales and gutted profits. Yet even those who remained relatively healthy during the downturn have high hopes that the next 12 months will not be a repeat of 1991.

"We've been asking our people not to participate in this recession," says David Martin, founder and president of Huntsville, Ala.-based Steak-Out, a 33-unit home delivery chain that expects to open 25 new restaurants in 1992.

Martin and most other operators in the Eastern Sunbelt — a region that reaches from Miami to New Orleans on the south, and from Norfolk, Va., to Louisville, Ky., on the north — are gladdened by growing reports of a midyear economic turnaround.

But a key unanswered question is how quickly consumers are going to buy into the idea of recovery. Operators report that during the past six months the dining-out public has turned more value conscious and more selective.

"People are holding onto their money; make no mistake about it," says Jehan Wanigatunga, general manager at Pompano's, a tablecloth seafood concept housed in the Atlanta Marriott Marquis.

The problem at issue is that consumers are less optimistic than retailers about the timing and strength of the expected upswing, says Gregg Cudahy, consulting manager for DeLoitte & Touche, which just released the findings of its sixth annual Southeast Business Outlook Survey.

"The evidence is that we're looking at recovery by the middle of 1992, but how quickly the expectation trickles down is only a guess," observes Cudahy, who noted that 65 percent of DeLoitte & Touche's business respondents feel the turnaround is going to be slow.

Meanwhile, operators are leaving no stone unturned in their search for ways to tempt patrons back into their restaurants.

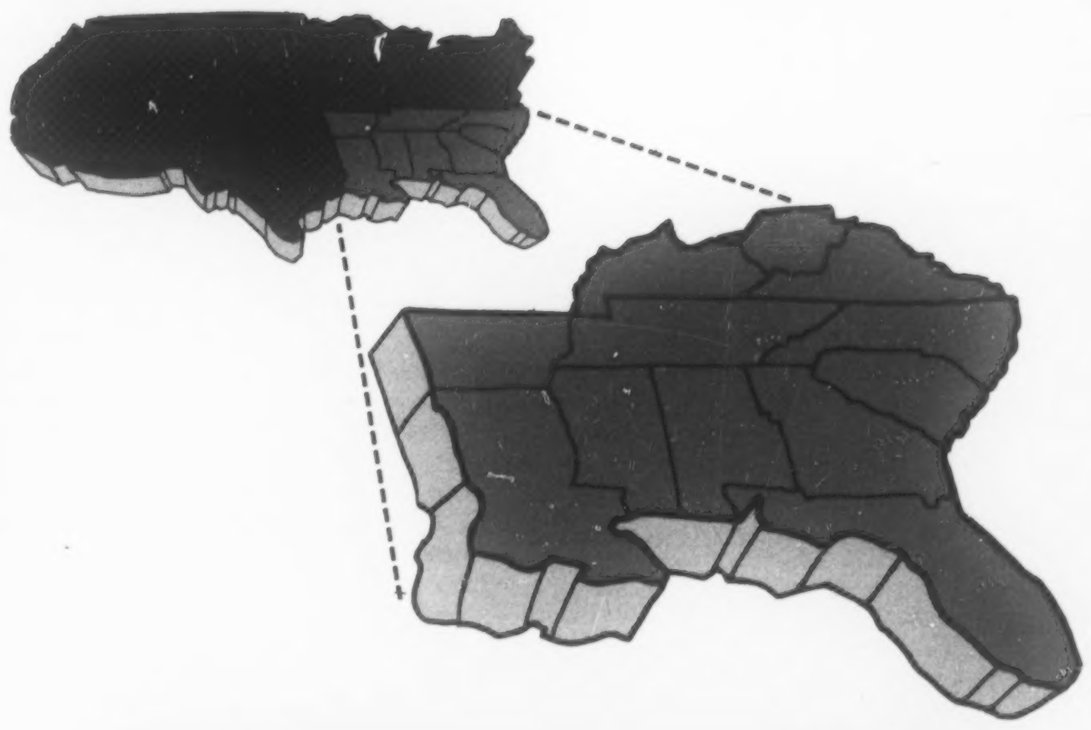
Pizza franchisee Thomas Guthrie, operator of a Primo's unit in Atlanta's north suburbs, expanded to chicken wings and sandwiches in an effort to regain the traffic he lost in 1991. His new menu has 14 hot and cold subs; eight dinner combinations; including baby back ribs; three salads; and five desserts.

"Deliveries have dropped by 100 a week since last year," complains Guthrie. "And it isn't competition, either. It's pure recession."

"I think January is going to tell it all," says Joe Sutherland, who is the operator of the 5-month-old Key West Grill and Bar in Columbia, S.C., and launched a big TV and radio campaign when sales took a 15-percent dip between October and November.

Sutherland says he's optimistic, but more so for the economy in Columbia — the state capital and home of the University of South Carolina — than for tourist- and convention-dependent Charleston, where he owns a second Key West unit.

"In Columbia we've got a much bigger work force," explains Sutherland, whose restaurant there is also the recent beneficiary of a lavish dining review.



SOUTHEAST			
	Eating place sales 1991	Eating place sales(P) 1992	% Change* (real growth)
Alabama	$ 2,255.7	$ 2,375.2	1.5%
Arkansas	1,157.3	1,224.4	2.0
Florida	11,003.6	11,663.8	2.2
Georgia	4,738.2	5,093.6	3.7
Kentucky	2,274.3	2,401.7	1.8
Louisiana	2,564.0	2,681.9	0.8
Mississippi	1,093.5	1,152.6	1.6
North Carolina	4,691.8	5,071.9	4.3
South Carolina	2,380.4	2,563.7	3.9
Tennessee	3,021.4	3,232.9	3.2
Virginia	4,595.9	4,885.5	2.5
West Virginia	841.8	857.0	−2.0
Totals	$40,617.9	$43,204.2	2.6

* "% Change" adjusted to discount projected menu price inflation and represent "real" growth in total Eating Place Sales in 1992.

Source: National Restaurant Association

Steak-Out's David Martin, who operates in seven southern states, agrees that the cities with major universities and government offices have been more resistant to the bite of the downturn. He said Atlanta, Greenville, S.C., and Nashville, Tenn., are among his healthiest markets based on sales growth.

Steak-Out's David Martin, who operates in seven Southern states, agrees that the cities with major universities and government offices have been more resistant to the bite of the downturn. He said Atlanta, Greenville, S.C., and Nashville, Tenn., are among his healthiest markets in terms of sales growth.

"By the middle of 1992, the whole region will be pulling itself up by the bootstraps," remarks Martin, whose stores are starting to use coupons. "Meanwhile we're playing this economic hiccup like an opportunity — negotiating stronger deals for our continued expansion."

In Florida, where restaurant sales growth has outpaced that of the nation and the region the past eight years, the downturn is still being felt significantly in shrunken tourism. Even Orlando, which calls itself the nation's hottest resort market, is hurt by the softness, as operators have been reporting since last spring.

Restaurateur Michael Thomas, who operates 24 Miramar, Cathy's and Slider's Cafe in the Jacksonville market, has upped his advertising budget and expanded couponing to lure cautious patrons into his units.

"Customers haven't seen value like this in years," declares Thomas, who is boosting traffic at Slider's with a $5 discount on meal purchases of $20 or more. "I never expected to be doing coupons here."

Thomas estimates the Jacksonville market, which began slumping last June, is off by 20 percent.

"Unless someone in Washington wakes up, it wouldn't surprise me if this downturn continues until fall," says Matt Long, a general manager at Charcoals Restaurant in Miami.

The four-unit Charcoals chain, a casual steak-house and nightclub concept in Dade and Broward counties, has pared menu prices to boost business — running $8.95 dinner specials the entire month of December, Long says.

One saving grace for all of Florida in 1991 was the steadiness of foreign tourism. And operators are hoping foreigners will continue occupying seats this year.

"I'm mainly concerned with whether they'll spend as much money as they did," admits Joe McCully, who operates 15-year-old McCully's Rooftop, a seafood destination in Bonita Springs.

McCully says he's serving more $8.95 and $10.95 specials — "sacrificing a bit of profit" — and offering his menu in German and French, as others have done in his market, between Naples and Fort Myers on Florida's southwest coast.

But there are a few pleasant surprises in the region.

New Orleans, a city that was economically crippled after the natural gas and oil bust of the 1980s and was abandoned by thousands of out-of-work professionals in the years that followed, is still one of the nation's popular tourist and convention markets.

According to Emile Hebert, general manager at the Court of two Sisters in the popular French Quarter, the expanded New Orleans Convention Center is 75 percent booked for 1992, and his restaurant is happily fielding more inquiries about business this year.

"If we had to rely only on local clientele, we'd be in big trouble," says Hebert, whose 1991 volume was down just slightly from that of the previous year. "But as long as people keep coming to town, we're going to stay busy."

SOUTHWEST

by Robin Lee Allen

Very cautious optimism is stirring the spirits of Southwestern restaurateurs, who over the past decade have perfected the art of tenacity in the face of tough economic times.

While no one in the Southwest expects 1992 to be a year of record-setting growth, operators are certain that it will not be so bad as past years, and that many businesses will end it healthier than they started.

"I'm predicting a healthy '92 because, one, I'm an optimist and, two, restaurateurs are doing a better job educating themselves about costs," says John Garcia, executive director of the New Mexico Restaurant Association. "They are better operators. They have to be."

Eating-place sales in the Southwest are expected to see larger growth in 1992 than in other regions of the country, according to the National Restaurant Association.

Still, Southwestern operators are guarded. Concerns about the decreasing labor supply, higher food costs and governmental intervention loom large as 1992 unfolds. And recession remains a relentless preoccupation.

Recession hit the central Southwest about 10 years ago when the domestic oil industry dried up, evaporating jobs and discretionary income. Regional operators were forced at the time to make operational changes to survive. Thus, they were more prepared for the nation's current economic malais than the operators who are now adjusting to the downturn.

"Whereas other parts of the country are going through the shock waves of layoffs and low consumer confidence, this part of the country has been dealing with a slow economy since the early '80s," explains Greg Lippert, vice president of marketing for Mazzio's Corp., a 248-unit midscale pizza chain based in Tulsa, Okla. "I don't think we're on the rebound, but I don't think we've lost any ground either."

As restaurateurs in other parts of the country look to recoup business with improved customer service and lower prices, many Southwestern restaurateurs put their revamped programs in place long ago. Those restaurants that could not adjust are already gone.

"We've seen the shakeout," observes Bob Clift, executive director of the Oklahoma Restaurant Association. "It's not nearly as prevalent now as four or five years ago. A good number of operators are healthy and will be here next year."

Stable membership in the Oklahoma Restaurant Association reflects some economic improvement, Clift noted. "We had the lowest attrition rate in the association than in any other year," he says regarding 1991. "We see that as a very positive sign. People in the restaurant industry are holding on and not going out of business."

That has not been the case in New Mexico during the past few years, Garcia points out. For a while boarded-up restaurants sprang up regularly on street corners around the state — especially when several Hardee's and Rally's units closed, he notes. But now those restaurants are reopening as independents.

"I think that we'll probably be looking at a better outlook in terms of restaurants opening," Garcia says of 1992. "People seem more willing to rent out space at more reasonable rates, and with interest rates coming down, it's easier to go into the restaurant business."

An influx of retirees — even though they are generally on fixed incomes — is also helping economic growth, Garcia adds. The National Restaurant Association puts New Mexico's eating-place sales for 1992 up 7.1 percent, or an adjusted 3.3 percent, at $1 billion.

Texas restaurateurs are also welcoming what they hope will be a prosperous year. The NRA expects that state's eating-place sales to increase 7.5 percent, an adjusted 3.7 percent, to $12.2 billion.

"We think a lot of good things will happen in 1992," observes John Wooley, president of Austin, Texas-based Schlotzsky's, a 230-unit sandwich, soup and salad chain. "Texas in particular is on the road to recovery. All of the trends are up. There's positive job growth, occupancy rates are up and retail sales are up."

To capitalize on the improved affairs of the state, Schlotzsky's is poised for substantial growth with a new area development franchise program and a new marketing position as a midscale restaurant with a quick-service format, Wooley says. He expects to open about 75 new restaurants in 1992 and to roll out the chain's new menu — with 28-percent higher prices — during the year.

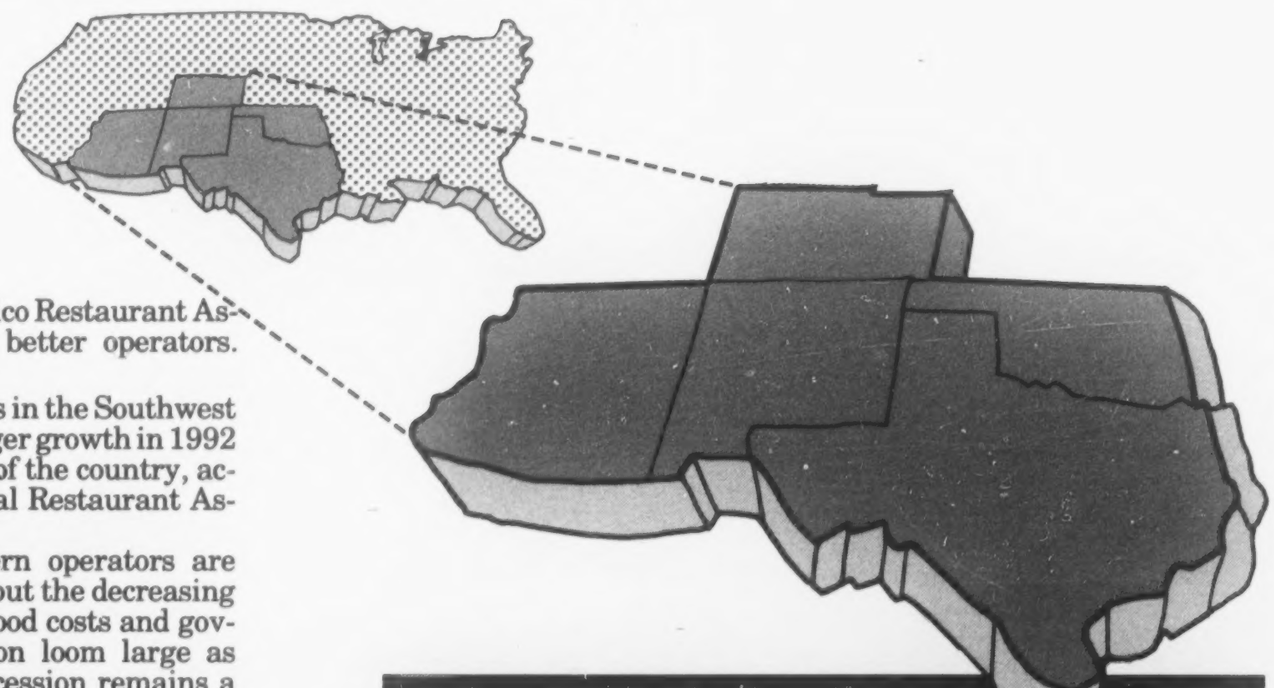
The Texas cheer has not yet moved west to Arizona, where operators are now lamenting the possible loss of military bases, explains Penelope Miedaner, executive director of the Arizona Restaurant Association.

"That's going to have a negative impact," she prophesies. "Realistically, I hope we stay even. Generally, the feeling is not very positive, but of course, there are success stories."

Success stories are expected to boost Arizona's eating-place sales a nominal 9.1 percent, or an adjusted 5.3 percent — the largest percent change predicted for the states — to $2.8 billion, according to the NRA.

Officials at Peter Piper Inc., a 118-unit pizza chain based in Phoenix, believe their business will be part of that growth.

"We think '92 for Peter Piper Inc. should be a positive year," says John Baillon, the company's director of franchising. Low prices, a budding delivery system and expansion into Mexico helped sales in 1991 and should continue to pay off in 1992, he adds.



SOUTHWEST

	Eating place sales 1991	Eating place sales(P) 1992	% Change* (real growth)
Arizona	$ 2,566.7	$ 2,800.2	5.3%
Colorado	2,679.0	2,906.7	4.7
New Mexico	982.9	1,052.7	3.3
Oklahoma	1,937.4	2,051.7	2.1
Texas	11,326.5	12,176.0	3.7
Totals	$19,492.5	$20,987.3	3.9%

* "% Change" adjusted to discount projected menu price inflation and represent "real" growth in total Eating Place Sales in 1992.

Source: National Restaurant Association

> "I'm predicting a healthy '92 because, one, I'm an optimist and, two, restaurateurs are doing a better job educating themselves about costs. They are better operators. They have to be."
>
> — John Garcia, executive director of the New Mexico Restaurant Association

WEST COAST/

by Richard Martin

The recession's lingering clouds threaten to overshadow a few encouraging developments as 1992 dawns for restaurateurs in the West.

On the bright side, California's insurance commissioner, citing hardships on employers posed by the state's "gloomy economy," has disallowed an impending 11.9-percent rise in workers compensation insurance rates and limited them to an average 1.2-percent annual hike.

What's more, California Restaurant Association officials expect interest to grow in the state Legislature for a proposal to permit "risk pooling" by small businesses, a move that would enable them to offer group health insurance to employees.

Meanwhile, clever entrepreneurs and chain executives continue to find opportunities for profit among customers seeking sensibly priced and nutritious dining alternatives.

But high rates of unemployment and financial uncertainty are complicating efforts to lure back vast numbers of dispirited or nervous consumers whose enthusiasm for discretionary spending in restaurants has waned.

Widespread sluggishness in foodservice sales is expected to continue throughout the Western region, whittling away profit margins and retarding expansion plans. At the same time economic contractions will contribute to government's growing appetite for new taxes and fees to offset budget shortfalls and new welfare claims.

"I don't see very much hope of things getting better for at least a year," says Donald F. Karcher, president of the California Restaurant Association and Anaheim-based Carl Karcher Enterprises and its Carl's Jr. chain.

"I believe '92 is going to be very tough for our industry as well as others," Karcher muses. "The smart thing to be doing is to control your growth — we're controlling ours — and to focus on doing what you do best, whether that's providing friendly service and great charbroiled sandwiches or whatever."

Blackie Hunt, owner of the Bootlegger dinner house in Las Vegas and incoming chairman of the Nevada Restaurant Association, also recommends that positive action be taken by those awaiting a recovery.

"If you're just sitting there doing nothing and waiting for the economy to come back, you may be waiting the whole year," says Hunt, who has implemented "heart-healthy" menu enhancements in an effort to counter last year's 10-percent sales decline at the Bootlegger.

But Hunt is worried by reports that many of his colleagues are sustaining 20- and 25-percent sales dips. "I can't conceive how these places can continue to exist for too long, he says."

Nevertheless, the National Restaurant Association predicts that eating places in Nevada will score the largest percentage sales gain of all states this year, increasing 9.9 percent, to $1 billion.

Although Las Vegas is currently the nation's fastest-growing city and home to a vibrant hospitality economy, many of its restaurants remain competitively handicapped by the boom's principal benefactors — the casino-hotels that can afford to subsidize their dining outlets. "That's always been difficult for independents here," Black points out.

Pressures on restaurants in Nevada have mounted in the form of new business taxes that hit small employers hardest. Assessed on a graduated scale depending on the size of a business, the tax runs $100 per worker annually for the Bootlegger's 40 employees, Hunt explains, but averages less for hotels and other large firms. "We fought it very hard," he says, sighing. "It's another burden we have to work around."

California's restaurateurs face the first of 1992's regulatory burdens in the form of a crisis at the state's Alcohol Beverage Control department. Gov. Wilson's plan to lay off three-fourths of the department's field investigators is expected to bolster efforts to re-enact "third-party" civil liability penalties against restaurants and bars in drunk-driving accident suits.

The looming cutbacks at the ABC are also certain to increase, and perhaps double, the time needed to approve beer-and-wine and spirits permits. "How can you conduct business if you can't transfer licenses in a timely manner?" asks Jo-Linda Thompson, the California Restaurant Association's legislative affairs director.

Worse still, some fear that the liquor license bureau's diminished investigative and enforcement activities will encourage drug- and alcohol-related crimes by those who are now deterred by the department's cooperation with local police on "stings" at bars and restaurants. "That's all we need," an exasperated Thompson says, referring to the potential for harm to the industry's reputation.

On the tax front, Thompson sees a "very big potential" for legislative action to reduce the deductibility of business-marketing meals. The threat to California's already reeling expense-account-dining restaurants would come from at least two pending bills that seek cuts in the current 80-percent deduction allowance, to 70 percent and as low as 50 percent.

"The state is in deficit again, and tax collections are falling," Thompson notes, explaining the mood of revenue-raisers in Sacramento. "We are certain to see a renewed interest in the reduction of the deduction."

She says new "user fees" and local taxes are also likely to proliferate in 1992. "The trend is going to be to find money to fund programs outside the normal collection route," Thompson explains.

In 1991 the California Restaurant Association identified 300 bills — 10 percent of all new legislation — that affected the hospitality and restaurant industries. The "parental leave" bill, which became law on Jan. 1, 1992, should be of particular interest to large restaurants and chains.

AB 77 requires businesses with 50 or more employees to grant unpaid leaves of absence lasting up to four months every two years for workers taking care of newborns, newly adopted children or a seriously ill child, parent or spouse. Exemptions apply to highly paid employees, a parent whose spouse is already at home, and women who are only allowed one additional month beyond the four-month maternity leave already allowed by state law.

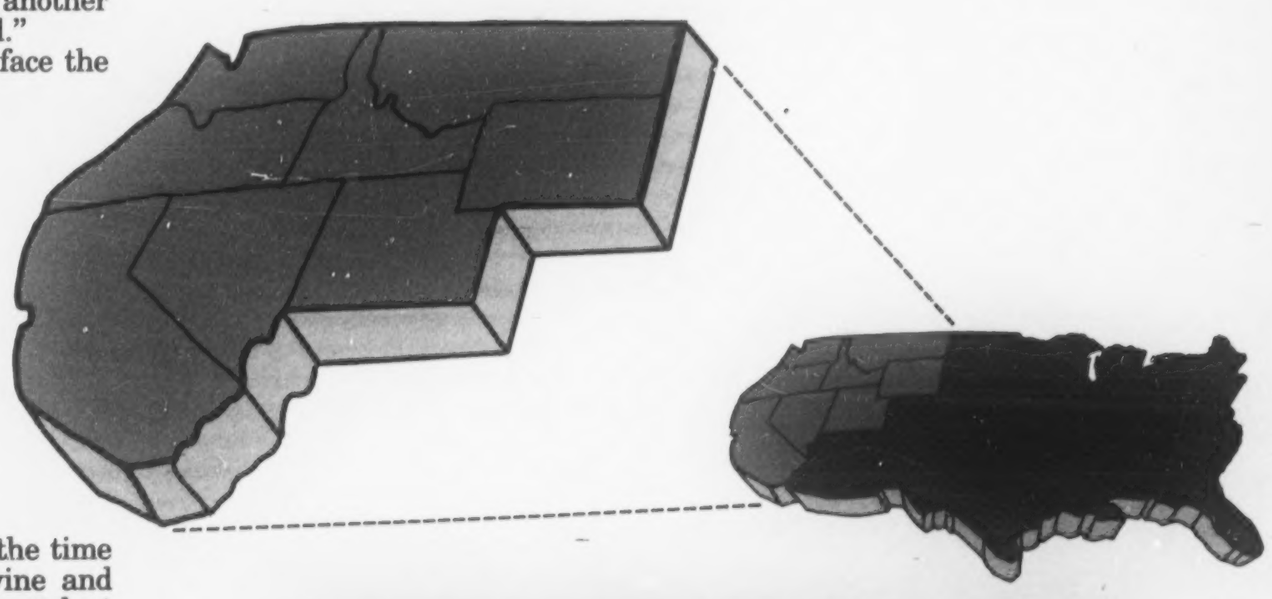
Employers, who can disallow the leave if it poses an "undue hardship" on their business, may require employees to use their vacation time toward the parental absence.

Mandated health benefits remain a persistent threat on the legislative agenda in California, but Thompson believes that the financially strapped state's own burdensome civil-service payroll may convince lawmakers to backpeddle on the matter. "If a lower-cost way can be found to fund these benefits we may have a problem, but I'm not sure that can be done," she said.

More likely, Thompson said, is the possibility that California's restaurateurs may confront new legislation permitting punitive and compensatory damages in job discrimination suits, mirroring the new federal civil rights act. She said it is "doubtful" whether Gov. Wilson would block implementation of such a bill, even though he has risked public wrath recently by vetoing an antidiscrimination bill sought by homosexuals and by proposing massive cuts in welfare spending.

Stagnation this year seems an unlikely prospect for California's foodservice industry, despite the state's economic woes. But projections by the National Restaurant Association that California's eating-place sales will advance 5.8 percent during 1992, to $27.9 billion, have been met with skepticism.

"I think that's very optimistic," the CRA's Thompson said, citing a California Business Roundtable survey which indicates that the number of businesses planning to leave the state grew from one in seven to one in four last year. "I think California's business climate is going to be problematic for some time," she predicted. "With companies leaving California, I don't understand how that creates a climate for growth."



WEST COAST/NORTHWEST

	Eating place sales 1991 (in millions)	Eating place sales(P) 1992 (in millions)	% Change* (real growth)
Alaska	$ 566.5	$ 610.1	3.9%
California	26,377.2	27,907.1	2.0
Hawaii	1,915.0	2,028.0	2.1
Idaho	525.8	562.6	3.2
Montana	488.1	508.6	0.4
Nevada	911.8	1,002.1	6.1
Oregon	2,335.4	2,529.2	4.5
Utah	965.0	1,049.9	5.0
Washington	4,092.7	4,440.6	4.7
Wyoming	268.0	277.4	−0.3
Totals	$38,445.5	$40,915.6	2.6

* "% Change" adjusted to discount projected menu price inflation and represent "real" growth in total Eating Place Sales in 1992.

Source: National Restaurant Association

NORTHWEST

by Alan Liddle

Oregon and Washington operators, who managed to sidestep much of the economic misfortune that mauled their peers in other states in 1991, are keeping their fingers crossed that the rest of the country recovers before the negative momentum drags them into the quagmire.

Brent DeMesquita, vice president of organizational development at 285-unit Taco Time in Eugene, Ore., says his chain realized its most profitable year from operations in 1991.

Same-store sales and systemwide sales were up for the year, and the chain saw its number of restaurants grow by about 5 percent, he indicates, but the company is concerned that a slow recovery in states outside the Northwest and Mountain regions could slow its forward motion.

"The only question that we, and everybody else, has is, 'What is the economy of the nation going to be like [in 1992]?'" DeMesquita remarks. "If people who wish to franchise can't get the money, it could get very interesting."

Jim Simonson, vice president of operations at Seattle-based Restaurants Unlimited Inc., notes that same-store sales for his company's 21 full-service restaurants were off by about 4 percent in 1991. He points out, however, that the overall sales picture was skewed by the poor performances of some regions outside the Northwest.

"Seattle has pretty much held its own: It's 'soft,' but it didn't show the decreases we saw in California. That [economy] is sad," Simonson says.

Giving a quick rundown of R.U.I.'s operating areas, he explains: "Philadelphia, the [San Francisco] Bay Area and Los Angeles [slowed noticeably] in the second half; Hawaii and Alaska, they've both been up significantly; don't ask me why. And Minneapolis . . . we wouldn't mind having 21 restaurants in Minneapolis."

As for the coming year, Simonson says, "We're predicting sluggish [economic conditions] or more of the same."

Based on projections of above average growth in population, employment and personal income, the National Restaurant Association is forecasting that food and beverage sales will increase by 8.5 percent in Washington eating places and by 8.3 percent in Oregon eating places during 1992. In 'real' terms, or adjusted to discount anticipated menu inflation, those growth rates are 4.7 percent and 4.5 percent, respectively.

That projected rate of real growth ranks the two Northwestern states among the top five nationwide. Other states in the top five are Nevada (6.1 percent), Arizona (5.3 percent), Utah (5.0 percent) and Colorado (tied with Washington, 8.5 percent).

NRA projections indicate eating-place sales in Washington should reach $4.4 billion this year, while volume at Oregon's eating places is expected to go as high as $2.5 billion.

"Oregon this past year has done better than the nation as a whole in terms of maintaining a pretty solid economy; it's been a little 'soft,' but most of that is related to anxiousness over the national economy," observes William Cross, executive vice president of the Oregon Restaurant Association.

If Oregon's economic fate is tied to the nation's, optimistic operators with a pessimistic view of lawmakers are smiling. The upcoming race for the White House, they reason, is likely to spur some positive, though possibly only short-term, action.

"We're anticipating in an election year seeing better things happen across the other states," Cross remarks. "If that happens, we expect people [Oregon consumers] to be less anxious about their spending."

Taco Time's DeMesquita notes that uncertainty about the time line of the recovery has prompted the quick-service Mexican chain to focus internally for a while.

"Much of our concentration will be on existing franchisees with [royalty-based] incentives for remodels, operational excellence and the opening of additional units," he explains.

Dave Thomason is president of Thomason Restaurants Inc. of Grants Pass, Ore., operator of six franchised Carl's Jr. hamburger restaurants and a Blimpie sandwich shop. He says his southern Oregon-based company's 1991 sales were up by about 4 percent following two years of double-digit growth.

"Many [operators] I've talked to in this region are doing quite well," observes Thomason, an Oregon Restaurant Association officer. "It [Oregon] is not as dependent on timber as it was once, and tourism is a growing industry."

Adds Thomason, "Most of my locations are freeway oriented and situated to take advantage of the growth in tourism."

Bend, a haven for outdoor recreationists, and the coast are two of the hottest tourist attractions, state officials indicate.

In the Portland Metropolitan Area "we're getting more involved in Pacific Rim trade of agricultural products," the restaurant association's Cross says.

"Timber, tourism and agriculture — those are our biggest industries," Cross explains. "Of those, only timber is going to be off [in 1992], and that really is just a continuation of the downsizing that has been going on for the past four or five years.

"We will see operations in timber-dependent towns, smaller communities, start to suffer [this year]," Cross acknowledges.

The influx of retirees to the southern part of the state has also helped Oregon restaurateurs to maintain respectable rates of growth. Many of the new residents are from California.

"Despite the real-estate woes in California, people still are cashing out at levels that let them come up here and build their dream homes for half of what they would spend there," Carl's Jr. franchisee Thomason notes. "We've found that what you might call the 'typical' retiree is evolving: They are younger than ever, tend to have more money and they are spending it."

California businesses, and their counterparts from other states, are also expressing an interest in relocating to Oregon. Thomason, who sits on the board of the Southern Oregon Regional Economic Development Inc., says that as many as 50 companies are nibbling at the bait laid out by the state's boosters.

"Water is plentiful, we have a strong and adequate work force, and the cost of land is not as high [as in California]," Thomason explains.

NRA forecasts for Washington look good on paper, but reports from operators illustrate that plenty of highs and lows are factored into the statistical averages and plenty of uncertainty.

"We had a net loss of restaurants," Ray Lindstrom, Restaurant Association of the State of Washington, says of the recession's toll. "It has been particularly hard on independents."

Lindstrom is president of Restaurants Unlimited.

As was the case at Restaurants Unlimited, Timothy Firnstahl, owner of Satisfaction Guaranteed Eateries of Seattle, too, saw mixed results in 1991. In his case, however, the ups and downs were experienced in one market.

"This was the worst summer in the history of Jake's; now it's breaking records," he says of his well-known Seattle restaurant Original Jake O'Shaunessey's. Referring to his newest venture, the year-old Sharp's Fresh Roasting, Firnstahl says, "It started slow, slow, slow because of the [unseasonal] snow, and every month it gets a little more [business] but I've never seen a restaurant build so slowly."

> "I think we are suffering from a lack of leadership in this country and, as a result, consumer confidence, as evidenced by the polls, is at an all-time low . . ."
>
> — Timothy Firnstahl

Adds Firnstahl, "I think we are suffering from a lack of leadership in this country and, as a result, consumer confidence, as evidenced by the polls, is at an all-time low. Dining out is discretionary, and as such, I think we're being affected. I think it would help a great deal if there was some sort of a solid, highly visible economic plan put forth [by political leaders]."

"We're not where we thought we'd be now [businesswise] two years ago, but we're doing a lot better than we thought we'd be doing this time last year," notes Tom Douglas, co-owner of the eclectic and contemporary Dahlia Lounge in Seattle. "Who the hell knows what is going to happen in 1992? My sous chef left at the end of September, since last year [fourth quarter] was soft. I wasn't going to replace him, but I've been buried [with work] since."

Schwartz Brothers Restaurants of Bellevue, Wash., is among the companies that faired well in 1991.

"We've had our best year ever," explains Bill Schwartz, president.

Schwartz Brothers operates nine restaurants, including three moderate-priced Cucina! Cucina! Italian restaurants and two contemporary steak and seafood houses called Daniel's Broiler. Company officials say the Cucina! Cucina! concept has performed strongly during the recession.

"We were up about 10 percent in sales [to $34 million], and profits were up substantially," Schwartz points out. "We're looking forward to '92, but we're not going to go out and expand like crazy."

While existing Schwartz Brothers restaurants have apparently weathered the recession well, the economy is making it difficult for the company to add new units, Schwartz indicates.

"We're negotiating on several locations and hope to open two [Cucina! Cucina! units] in 1992," he says. "One of the reasons we haven't made any deals yet is the economy: Landlords are reluctant or unable to put in improvements; they can't get the money."

Mad Anthony's Inc., also based in Bellevue, operates five Anthony's Home Ports, which are white tablecloth seafood restaurants; a low-ticket full-service seafood restaurant called Chinooks; and a Confetti's, a restaurant specializing in rotisserie-cooked chicken, wood-fired pizzas and prime ribs.

"We're mighty grateful the year ended so well — up 4 percent [overall]," remarks Sally MacArthur, the company's executive chef. "Chinooks was up almost 10 percent, doing almost $4.5 million [in sales]."

Gene Vosberg, the Washington restaurant association's executive vice president, reports, "Sales are flat, generally. In the top-end segment, maybe even worse." He says comments from restaurateurs indicate Washington consumers have been trading down from higher-end restaurants to eating spots with moderate prices.

"That doesn't mean the midscale people are getting fat," he stresses. "People who were dining at that level are stepping down themselves or not spending at all."

Vosberg says state officials have been talking about the potential for a $900 million budget shortfall in the coming year, and that has operators worried.

"Our concern is that the Legislature during the upcoming [January] session will look for ways to raise revenues," the RASW official notes. "That might mean some sort of increase in sales tax or new 'user' taxes [fees]. These things [revenue-raising schemes] always seem to reverberate down to the operators."

MIDWEST

by Carolyn Walkup

Key operators and analysts in the Midwest are preparing for a tough first half of 1992 while they hope for improving economic conditions later in the year.

"There is no indication that we are into a recovery," says Ron Paul, president of Technomic Inc. "I expect to see a shakeout. We will see some shutterings in the whole Rust Belt."

Diane Swonk, senior regional economist of First National Bank in Chicago, predicts a soft start to 1992 with mounting consumer frustration. Economic growth will be below 3 percent, she said, generating more unemployment.

She expects some improvement in the second half resulting from the dollar's depreciation. There should be a bouncing back in industries like auto, machinery and tools, resulting in a boost to the Midwest's economy.

"The advantage in the Midwest is that we didn't party as hard in the 1980s," Swonk commented, referring to the excessive debts incurred by much of corporate America.

Swonk foresees only marginal wage and salary increases, with real disposable income, adjusted for inflation, totaling just 1.2 percent.

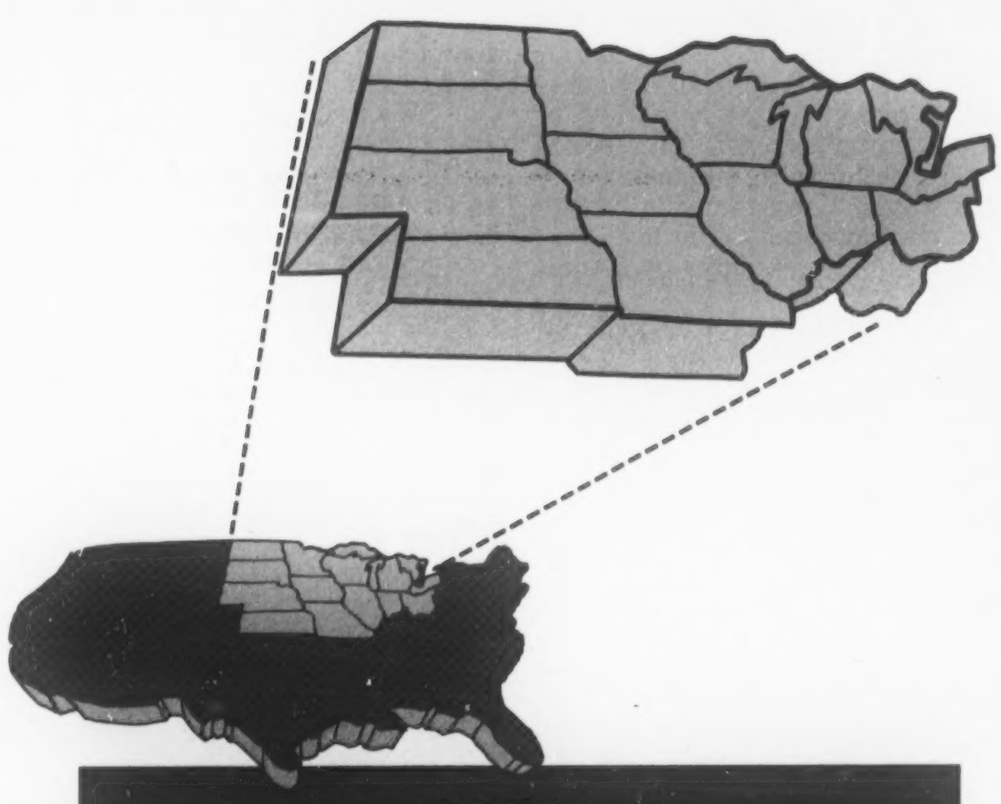
Restaurant operators, too, anticipate little economic growth and are preparing for that eventuality. "The first six months will be the toughest," explains Tim McGivern, president of the Illinois Restaurant Association and operator of Great Godfrey Daniels in suburban Skokie, Ill. "The economy will pick up in the second half of the year.

"We are somewhat fortunate that our industries and economy in Illinois have stayed pretty strong," McGivern said. "I don't think the economy is as bad off as we are led to believe."

Chicago-based Levy Restaurants President William Post said his company is "cautiously optimistic" about 1992. "This will be the decade where service will be king."

The record number of new openings in Chicago in 1991 probably means a large number of closings will occur in 1992 owing to market saturation, Post forecast. "The people who will survive will be those who stick to and know the basics of our business."

Several operators expect economic conditions to improve because 1992 is an election year. George Mancy, president of the Ohio Restaurant Association and owner of Mancy's Restaurant in Toledo, is one of those who are somewhat optimistic.



MIDWEST

	Eating place sales 1991	Eating place sales(P) 1992	% Change* (real growth)
Illinois	$ 8,024.4	$ 8,374.5	0.6%
Indiana	3,444.0	3,626.5	1.5
Iowa	1,605.3	1,676.0	0.6
Kansas	1,587.0	1,674.3	1.7
Michigan	6,065.8	6,326.7	0.5
Minnesota	2,997.6	3,198.5	2.9
Missouri	3,545.5	3,744.0	1.8
Nebraska	960.3	1,005.4	0.9
North Dakota	354.2	366.6	−0.3
Ohio	7,026.5	7,469.3	2.5
South Dakota	386.8	403.5	0.5
Wisconsin	3,341.0	3,548.2	2.4
Totals	$39,338.4	$41,413.5	1.5%

* "% Change" adjusted to discount projected menu price inflation and represent "real" growth in total Eating Place Sales in 1992.

Source: National Restaurant Association

On the down side, Mancy predicts a shakeout of "marginal" operators, especially those who operate restaurants as a secondary business. "Now it will be the professionals who are left," he remarks.

In Minnesota, Wayne Kostroski, new state association president, says: "I think people are just continuing to be more assertive about what they get for their money. Operators who just try to get by will suffer."

"It comes down to how good a restaurant is at any level," Kostroski continues. People will not give up their enjoyment of dining out and seeking entertainment at restaurants with friends and business associates, he states.

Kostroski says he is more worried about action or inaction by the state Legislature than he is about the public's inclination to dine out. Operating restaurants in Minnesota is harder than in many other states, he explains, because there is no tip credit, property taxes continue to rise and the minimum wage is going up.

"Small operators, particularly, are in trouble," he notes. "In Minnesota we have got to send an incredibly loud wake-up call to our state Legislature," Kostroski advises. "They just don't get it."

Neither political party realizes that the hospitality industry is Minnesota's second-largest employer and revenue producer, he claims. When the industry suffers, it affects an entire network of people, including farmers, producers and suppliers.

In Michigan restaurant operators are hoping for recovery in the auto industry, which affects most other industries in the state one way or another. "Once consumer confidence comes back, people will go out more often," observes Robert Machus, president of Machus Restaurants & Pastry Shops in the Detroit area.

Another veteran Detroit restaurateur, Chuck Muer, president of C.A. Muer Corp., a dinner-house group, recommends that fellow operators who expect to survive "make the best of what you've got. Keep the customers happy and get them to come in more often."

Looking beyond the problems of the restaurant industry to those of society at large, Kostroski says he hopes to raise the social consciousness of the industry about hunger. "We are in an industry that is in the business of feeding people," he notes. "We are the best people to come up with solutions on a day-to-day basis."

He would like to see the industry get more involved in job training and placement of the underclass to help them get out of the poverty cycle permanently.

NORTHEAST OUTLOOK: The strong will get stronger

(Continued from page 30)

sent the consumer with something that is a major value. Restaurant customers are more sensitive to prices than I've seen in the last 30 years."

But, he concludes, "if you do the right thing, the market is there."

Not all executives are so optimistic, however. Craig Miller, president of Uno Restaurant Corp. in West Roxbury, Mass., shrugs off the possibility that 1992 holds much improvement over 1991. "I don't see a lot of signs of resurgence in consumer confidence," he says. "And I don't see any real signs that things are getting much better."

Sales, he continues, still tend to be uneven. "We're still seeing a softness in the early part of the week. We have a few up days, and we have a few down days."

And while "there are certainly more opportunities than there have ever been, money is also tight," Miller notes.

Michael Weinstein, president of Ark Restaurant Corp. — the operator of about two dozen tablecloth restaurants in New York, Boston and Washington — asserts that an economic recovery for the region is nowhere in sight. "People I speak to have witnessed no turnaround. In fact, many have seen a deterioration of business," Weinstein points out.

And yet, as a result of increasing efficiencies within the company, Ark is enjoying expanded gross profit margins, according to Weinstein. "We're making more than ever before," he explains. "We've lowered our structured costs. Because of our size, we can cut good deals with our landlords and suppliers."

In addition to opening a restaurant in Bryant Park in New York later this year, he says, Ark is drawing up plans for several big projects outside of New York — possibly in suburban Washington.

"Right now New York is a hostile business environment," he observes. "And now that we've learned how to travel, we will."

New York's Dennis Riese notes that while business appears to be trending upward slightly over last year's, a major challenge for 1992 will be operate with fewer customers and lower cash flow. "We have to find new ways to grow," he says, adding that not all landlords have yet to throw in the towel on 1980s-style rents. "Landlords are still not being totally realistic; some rents have indeed declined, but others haven't."

One bright spot in the bleak Northeast picture, however, has been Washington, D.C. Generally speaking, executives who operate units in Boston, New York, Philadelphia and Washington, portray the nation's capital as being the healthiest of the lot. "We enjoyed the best same-store sales in D.C. during the last quarter," Shaich notes.

And that trend is only expected to improve during this election year. "We're seeing a lot of activity in Washington," Weinstein adds.

Tom Rouland, executive vice president of the Restaurant Association of Metropolitan Washington, agrees. "Washington has a solid employment base," he explains. "And there's been no substantial reduction in employment here. It's very stable."

1992 FORECAST & TRENDS

Commodities face good outlook for 1992

(Continued from page 26)

According to Ralph L. Parlett, an agricultural economist for the USDA's Economic Research Service, there are three major factors that affect retail food prices: consumer demand for food, prices of food commodities at the farm level and the costs of processing and distributing goods to consumers.

The prices foodservice distributors pay may be different from those paid by the consumer in the supermarket, but the two are strongly linked. If consumer demand increases and supplies of a food don't, prices rise. They rise for the foodservice operator as well, since both the retail and the foodservice sources dip from the same well.

The same thing happens when there's a surplus of a food and consumer demand doesn't expand. The price drops not only in the supermarket but also for the foodservice operator.

There are three major factors which affect retail food prices: consumer demand for food, prices of food commodities at the farm level, and the costs of processing and distribution good to consumers.

WHAT'S AHEAD FOR KEY COMMODITIES

COMMODITY	OUTLOOK
Beef	Flat to slightly down
Veal	Up 3 to 6 percent
Pork	Down, as much as 12 percent
Lamb	Up slightly
Broiler chickens	Down 1 to 2 percent
Turkey	Up slightly higher
Eggs	Down slightly
Seafood	No change
Cheese	Down slightly
Other dairy products	Up 1 to 3 percent

Source: USDA, NRN Research

Red Meats

Red-meat consumption is forecast to grow by about four pounds per person in 1992. It will be balanced by a strong increase in the supply of beef and pork.

Cattle producers are increasing their herds, because they have been getting reasonable returns over the past year. In 1992 **calf production** is expected to be more than 2 percent greater than it was last year. At the same time commercial cattle slaughter is expected to be larger than the reduced levels in 1991, which were the lowest since 1964.

Feeder cattle will continue in tight supply, particularly during the first half of the year. But since feedlot operators are holding cattle longer, a smaller number of feeder cattle provides a substantial increase in weight at slaughter. Continued moderate feed grain prices have contributed to holding the animals on feed for longer periods. Choice **beef prices** are expected to range from slightly below last year's average to as much as 4 percent above this year's.

Commercial veal production in 1992 is expected to decline about 8percent from last year's. That is expected to match the decline from 1990 to 1991. Calf slaughter has declined sharply over the past several years as increasing numbers of calves are held over for herd expansion or sold to feedlots.

The supply of **formula-fed veal**, however, is expected to remain about stable although prices are expected to rise from 3 percent to 5 percent. Formula feeders are slaughtering calves of larger sizes. Between 1990 and 1991, the average carcass size for formula fed calves jumped from 177 pounds to 205 pounds. However, that has reached just about the largest practical size, and little change in carcass weights are expected this year.

Lamb and mutton production is expected to be about the same for 1992 as it was last year. However, strong exports of sheep to Mexico have cut the herd sizes here. Lamb prices are not expected to rise much this year, because U.S. lamb consumption remains fairly flat to lower. But the reduced national herd size could result in reduced lamb production later in the year, which might put upward pressure on prices during the fourth quarter.

The hog population continues to expand, fueled by moderate feed costs. **Pork production** in 1992 is projected by the U.S. Department of Agriculture to be 17.2 billion pounds, carcass weight, exceeding the previous 1980 record of 16.4 billion pounds. This year's pork production will be 8 percent higher than last year's. The greatest increase is expected to occur during the spring and summer.

Exports for red meats are expected to increase during 1992, while imports decline. That could affect prices, but only slightly moderating their expected decline.

Poultry and Eggs

Domestic consumption of poultry is forecast to increase about 3 pounds per person this year. **Broiler** producers are expecting to increase production at about the same rate. **Turkey** producers are expecting to cut back the rate of production to bring supplies back into line with consumption.

The increased poultry and red-meat production anticipated will keep strong downward pressure on prices, particularly for broiler chickens. Today most of the U.S. broiler output is sold in forms other than the whole bird, in retail markets as well as to foodservice operators. Prices for broiler parts are expected to remain fairly flat, with some parts in strong supply at somewhat lower prices.

Turkey producers actually cut back the rate of output growth last year to about 3 percent, and that rate of increase is expected to continue this year. However, changes in purchasing and sale patterns by supermarket chains pulled the price rug out from under turkey producers in the last quarter of 1991, and the low prices resulted in sharp losses. If the price doesn't rise to 1990 levels during the first quarter, production may be cut back further until it reaches levels producers consider profitable.

Turkey normally follows a seasonal price pattern, with low prices during the first half of a year, gradually rising through the second half. Producers still sell a large part of their production — about 70 million birds or about 24 percent of production — for consumption during the holiday period from Thanksgiving through Christmas although it no longer takes the majority of production. A few years ago it ran to 80 percent of the year's output. A large part of production now goes to processed products, particularly in the foodservice market. Prices for these processed products tend to remain more stable than for whole turkeys.

Egg production for food use is expected to remain about steady in 1992. There was a small (about 1 percent) increase in production during 1991. Egg prices rose sharply when the industry cut back production in 1988 and 1989, but output gradually increased and prices dropped through 1991.

The big factor in egg pricing is the continuing reduction in U.S. consumption. Consumption of eggs per person last year was down to 232. It's expected to drop another egg per capita in 1992. However, some of the reduction is canceled out by the increased use of processed eggs.

Because of increased concern about food-borne illnesses, such as salmonella, legislation at both federal and state levels has been considered. This would, among other restrictions, require shell eggs be refrigerated at all levels of distribution. That would increase costs for some producers if such laws are adopted.

Seafood

Greater demand for seafood of all types in this country and throughout the rest of the world has reduced supplies and increased prices. There is no reason to think that harvests of cod, flounder, halibut and crab will increase greatly during 1992, so prices will probably remain near last year's levels.

One area where there has been oversupply has been in **domestic catfish** production. However, the lower prices resulting are not expected to last long. Many producers are cutting back production or going out of the business, and the industry is expected to shrink during 1992. That could mean a rise in catfish prices during the year.

Shrimp prices are expected to remain fairly stable. One of the major factors will be the value of the American dollar on the world's currency markets. At this time about half of U.S. shrimp consumption consists of imports, much of which is grown under controlled conditions on aquaculture "farms."

Dairy Products

The supply situation for the dairy industry is good — from that industry's standpoint. As we go into 1992, milk supplies are smaller, **wholesale dairy product** prices are stronger and there are far less surpluses holding a ceiling on prices.

At the same time, however, prospects for price increases generally are not too strong. **Milk prices** are expected to remain fairly stable. **Butter, American cheese and yogurt** usage dropped during 1991, and prices are expected to stay at or below last year's levels. On the other hand, if demand for **Italian-style cheeses** continues to increase, it may keep those prices at or higher than last year's.

Fruits and Vegetables

Weather had a dramatic impact on fruit and vegetable production last year. The hard freeze in California during 1990's Christmas season severely damaged **citrus crops**, greatly reducing fresh-market orange supplies. Cold, damp weather continued on the West Coast into the spring, slowing fresh vegetable growth and causing voids in the market distribution pipeline.

As a result, prices for **fruits and vegetables** were much higher than normal in the first and second quarters of 1991. However, as vegetable supplies reached more normal levels in the third quarter, prices declined. In the final quarter of the year, a combination of extremely high temperatures in California's central valleys and whitefly depredations in the southern desert areas caused disruptions in vegetable and **melon** prices.

With cold weather halting the activity of the whiteflies, normal production is forecast for this spring, with **lettuce** prices actually being unseasonably low during a good part of the winter months.

In 1992 **orange** production will still be low in the West because of tree damage suffered during last winter's freeze. Domestic fresh orange supplies will be larger than last season's, but they are expected to be well below the prefreeze levels of 1990. Fresh orange prices will likely remain high through 1992.

Although the price structure of foods is not directly linked to economic conditions, the recession can serve to keep a cap on food prices, at least through the first half of this year. It will mainly affect the prices of the more stable supplies, such as red meats, poultry and dairy products.

Fresh vegetable prices will be affected by the acreage planted by growers. Expected lower production in both Florida and Mexico during 1992 may impact prices. And natural disasters are always a worry.

But, in general, foodservice operators should see price increases overall for the foods they use remain about even with or slightly lower than the rate of inflation for this year. The increase in food on the federal government's Consumer Price Index is expected to run about 2 percent to 4 percent higher than 1991, according to estimates offered at the USDA's agricultural outlook conference held last month.

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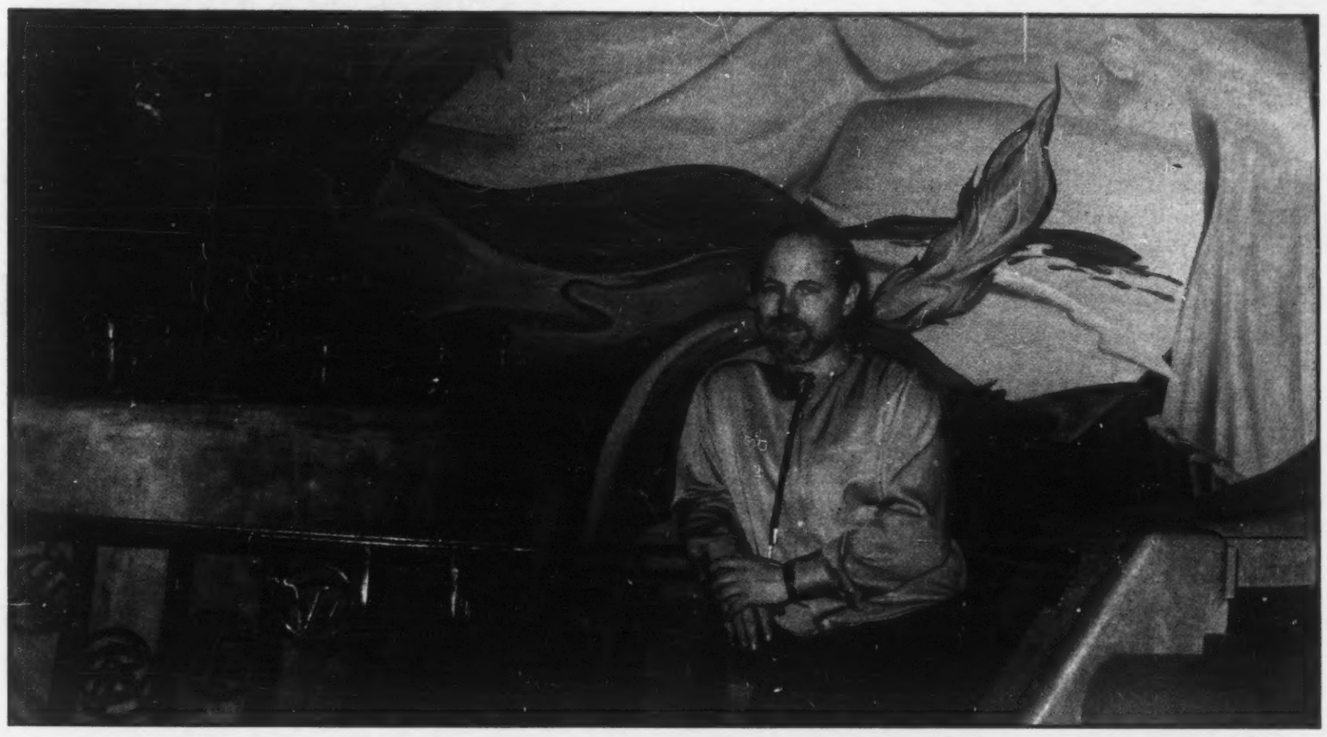

NRN Photo

Mark Miller inside his latest venture, the American West-themed Red Sage in Washington, D.C.

Miller lassoes D.C. diners at Western-style Red Sage

by Paul Frumkin

WASHINGTON — Mark Miller, one of the pioneers of the Southwestern culinary movement, has ridden into the nation's capital with a lavish new restaurant that showcases the cuisine and the culture of the American West.

Miller, who owns and operates the much-imitated Coyote Cafe in Santa Fe, N.M., invested $3.5 million to open the restaurant earlier this month in the turn-of-the-century Westory Building, located about a block from the White House and across from the Willard Hotel.

Housed on two floors, the 20,000-square-foot operation comprises a 110-seat street-level cafe, a 150-seat main dining area downstairs, three private dining rooms with 100 seats and a large retail outlet. Miller's partners in Red Sage include Steven Goldberg, a principal owner in the 11-story building, and Terry Peay, a partner in Coyote Cafe.

Miller, who has been directing the design and development of Red Sage for more than

(See MILLER, page 49)

ADA imposes new duties on operators

Enactment of first phase saddles industry with undefined obligations

by Peter Romeo

WASHINGTON — A sweeping new set of responsibilities was imposed on the foodservice industry when the clock struck midnight on Jan. 26, officially enacting part of the Americans with Disabilities Act.

The landmark measure aims to knock down the barriers that hinder the employment and mobility of the 43 million Americans who are physically or mentally impaired.

To achieve that end, the ADA obligates restaurants and other public places of business to alter jobs, management attitudes and the physical layouts of their facilities. More stringent requirements are placed on newly constructed and renovated establishments.

If a disabled person even suspects that a restaurant has failed to meet those responsibilities, he or she can sue the place for compensatory and punitive damages ranging as high as $300,000.

In addition, the place could be sued or fined by the U.S. Department of Justice.

Those enforcement tactics have greatly worried industry officials, who note that the ADA's regulations are expressed in vague terms that were purposely left open to interpretation. Mindful that the act had to apply in widely varying circumstances, regulators stated the law's mandates in broad generalities rather than finite dos and don'ts.

"There are no precise parameters," said Richard John-

(See INDUSTRY, page 4)

The ADA is here: Accept it and move on

See editorial/Page 21

Nothing to 'yoke' about: NJ reconsiders ban on undercooked eggs

by Peter Romeo

TRENTON, N.J. — State officials are scrambling to rescind New Jersey's controversial "runny eggs" regulation after the offbeat ordinance briefly captured the attention of the media.

The state's health department has already advised local authorities to stop enforcing the restriction while it is being reconsidered.

Intended to halt the spread of salmonella, the regulation prohibits restaurants from serving eggs that have not been heated in their entirety to 140 degrees, a temperature that kills the salmonella pathogen. Because the yolks of sunny-side up or soft-boiled eggs are not always heated to that threshold, a restaurant could be fined as much as $100 for offering those preparations.

"If it's a runny egg, it may

(See NJ, page 4)

INSIDE

No-alcohol brews make headway
Hochstein/Page 22

New exec team fuels Arby's
Segment Study/Page 25

CFO, director Greenberg named vice chairman at McD

by Milford Prewitt

OAKBROOK, Ill. — Back from an 18-month detail as a kitchen crewman and a field supervisor, Jack M. Greenberg, McDonald's top financial executive, has been named vice chairman of the company.

Filling a 6-year-old vacancy, the 49-year-old Greenberg assumes the second-highest-level executive position in the company, directly behind Michael R. Quinlan, who was appointed chairman a little more than a year ago, at age 46.

Greenberg retains his titles of chief financial officer and director.

His promotion was interpreted by some McDonald-watchers as a sign that the company is giving greater emphasis to financial management in its strategic planning. Historically, the operations side of the business has set the pace, long-time company observers say.

Jack. M. Greenberg

"McDonald's has always been an operations-minded company, and operations are critical," observed Mike Mueller, an analyst with Montgomery Securities. "But as it expands overseas and introduces new products, budget management and the cost analysis needed to implement these new programs will take on a bigger role."

Most analysts suspect that Greenberg's promotion is a reward for a job well done, a recognition of his success in finding and building the financial means to pay for McDonald's voracious international expansion drive.

"This appointment recognizes that he has done an outstanding job," Mueller continued. "Given their complexity of

(See GREENBERG, page 49)

THIS WEEK

NEWS

7 Italian deluge doesn't deter La Strada duo
7 Skolnicks pins profit hopes on new prexy, COO Kiser
16 Servomation inks F & B deal with Canadian stadium
16 Anderson soars with Sky Chefs as new vice president
34 Daka moves headquarters, promotes two execs

FOOD

11 Fabricant/Eggplant blossoms on international menus
11 Food News Digest
11 What's Hot in Portland, Maine

MARKETING

12 Sales take off at Indy's with trip sweepstakes
12 Marketing Digest
12 Ad Watch

FINANCIAL NEWS

14 Pizza Hut franchisee hit by labor, interest costs
14 Restaurant companies begin 1992 with burst of activity
14 Food Price Outlook
14 Financial Digest
14 Fact File

COAST TO COAST

18 Calif. Chicken Cafe roosts on high-volume sales
18 Frumkin/Fine-dining scene still alive in NY
18 Michael Foley to reopen Le Perroquet
18 Chandler closes Rex, sells 21 Oceanfront
18 Mich. braces for tough drunk-driving law
18 Mass. court rules against Athanas
18 Fla. county OKs leave bill
18 Casola, Pastron open 2nd Caffe
18 Giuliano Hazan named chef at Perlina

SUPPLIER NEWS

30 White Swan inks deal to buy J & J Foodservice
30 American Dairy Association to host sandwich contest
30 Supplier Digest

OPINION

21 Like it or not, the ADA is here: Time to accept it

SEGMENT STUDY: FAST FOOD

25 Posner's new exec team fuels turnaround effort at Arby's

OPERATIONS

17 Patterson/Microwave ovens provide macro-improvements
22 Hochstein/Non-alcoholic brews lead in growing category

FEATURES

19 Book Digest
21 Letters
22 Side Dishes
22 Name of the Week
36 Calendar
39 Foodservice Mart
48 Subject Index
48 Advertiser Index

NRN DIRECTORY

For complete directory, see **page 21.**

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NEWS BRIEFS

Sales growth slowed in Dec., government says

WASHINGTON — Sales at the nation's eating and drinking places softened in December, rising 4.4 percent on an annual unadjusted basis after hitting a 5.3-percent rate of gain in November, the U.S. Census Bureau reported in its monthly retail sales report.

December's increase in industry sales was equal to October's increase.

The deceleration parallelled the decline in menu price inflation, according to the U.S. Labor Department's Consumer Price Index. Menu prices — the food-away-from-home category of the CPI — rose just 2.9 percent on a 12-month, unadjusted basis after rising by 3 percent year-to-year in November and October.

When the industry's 4.4-percent sales increase in December is discounted against the month's 2.9-percent hike in menu prices, the figures suggest that customer traffic rose by 1.3 percent. In November restaurant traffic was up an annual 2.3 percent.

Meanwhile, grocery story prices rose 1.3 percent in December.

Sky Chefs accepts price cuts as part of American deal

ARLINGTON, Texas — Sky Chefs has agreed to reduce prices and submit to a performance evaluation as conditions of a new 10-year contract that the in-flight feeder is negotiating with longtime client American Airlines.

Under the tentative deal, which is projected to earn Sky Chefs $5 billion over the next decade, the feeder would also cease providing services to American at five locations.

A definitive agreement is expected to be signed in late February.

"Given the state of the airline industry, we are pleased with the fact that we have the opportunity to retain almost all of our business with American Airlines," said Tim Anderson, Sky Chefs' vice president of marketing.

Koras elected to chairman's post at Stevens

CRANBURY, N.J. — William Koras, president and chief executive of Harry M. Stevens Inc., has been elected chairman of the board for the family-owned recreational foodservice company.

Koras, 59, replaces Joseph B. Stevens Jr., grandson of the company's founder and chairman since 1982. Stevens remains a board member.

Koras joined Harry M. Stevens in 1958. When he was elected president in 1982, he became the first non-family member to hold that position.

Founded in 1887, Harry M. Stevens Inc. is regarded as the country's first sports caterer. The company, based here, has 29 accounts nationwide, including Fenway Park in Boston.

Dairy Queen, Texas licensees settle ad dispute

MINNEAPOLIS — Dairy Queen has agreed to allow a group of Texas franchisees to raise and administer their own advertising fund, settling a bitter legal dispute that resulted in four lawsuits.

Under the settlement the Texas Dairy Queen Operators Council, an association of franchisees who collectively own more than 800 units, will also continue to develop and promote Texas Country foods, a proprietary line of hot foods.

"ADQ has long recognized the importance of the more than 800 Texas franchises and the success of the special Texas food menu," said DQ president Mike Sullivan in a statement. "We are pleased that an amicable settlement could be reached that gave recognition to the vital concerns of all involved."

"I think it's a win-win situation for all involved," said William Hall, president of the TDQOC. "We're glad we were able to work this out and move forward."

The dispute stems from a 1986 contract whose language was interpreted by the Texas operators as an attempt to end their tradition of taxing themselves for in-state advertising.

Caprial Pence leaves Fuller's to run a bistro

PORTLAND, Ore. — Caprial Pence, chef de cuisine at the award-winning Fuller's restaurant in the Seattle Sheraton, has resigned to co-own and manage the 32-seat Westmoreland Bistro with her husband, chef John Pence, a veteran of the Seattle restaurant scene himself.

The small restaurant and retail wine shop is located in the Westmoreland area of Portland and had been operated by its creators for five years before the Pences acquired it earlier this month. A spokesman for Fuller's said Pence's position had not yet been filled.

CRA's smoking ban killed by committee

SACRAMENTO, Calif. — The California Restaurant Association's legislative proposal to ban smoking in all public places, including restaurants and bars, has been snuffed out by a legislative committee.

"We're disappointed we didn't get another hearing but will pursue other legislative alternatives after consulting with our legislation committee," CRA spokeswoman Jo-Linda Thompson said.

The CRA sought the ban, citing studies that indicated secondhand smoke poses a danger to non-smokers. Association officials have said they oppose a hodgepodge of local smoking regulations but would support a statewide ban that does not single out restaurants and bars.

Court restores higher garbage cap in New York

NEW YORK — A 7.5-percent reduction in the maximum garbage-hauling fee that can be charged to restaurants and other businesses here has been rescinded by an appellate court, exposing large operations to increased bills and even retroactive charges.

In August the city's Department of Consumer Affairs lowered the ceiling on garbage fees by 7.5 percent, attempting to ease the burden on businesses here. The fees charged by New York's system of private haulers are among the highest in the nation.

But a state appellate court overturned the directive, citing "inconsistent methodologies" in the consumer affairs' reasoning for lowering the cap. In addition, Judge Theodore Kupferman ruled that haulers could apply the higher rate retroactively to Aug. 1.

The consumer affairs department said it plans to repeal the measure.

Martin, 4 other Taco Bell execs, survive jet scare

DALLAS — A landing-gear malfunction aboard the corporate jet carrying Taco Bell president John Martin and four of his senior executives raised fears of a crash landing before the plane touched down safely after circling Dallas for three hours to exhaust fuel.

Martin, senior marketing vice president Tim Ryan, corporate counsel Richard Smith and two unidentified executives had attended a PepsiCo meeting in Dallas. Their plane had just taken off for Phoenix when the Challenger jet's nose gear failed to retract fully and then did not signal that it had locked in place for an emergency landing, the spokesman said. The plane landed without incident after making a low pass over the field to permit a visual confirmation of the gear's apparently normal deployment.

LA Council OKs street vending in special districts

LOS ANGELES — Over the objections of small-business owners fearing neighborhood blight and unfair competition from rent-free peddlers, the City Council voted 11-3 to legalize street vending in specially designated districts of Los Angeles.

The not-yet-drafted ordinance would require petitioning by vendors and merchants to create the special zones, which are expected to include MacArthur Park, downtown Los Angeles and parts of Hollywood.

Supported largely by a growing number of low-income immigrants who rely on peddling for their livelihoods, the plan will establish permit requirements and eliminate current penalties ranging up to six months in jail and a $1,000 fine.

FINANCIAL NEWS

Pizza Hut franchisee hit by labor, interest costs

by Theresa Howard

WICHITA, Kan. — Stung by an increase in labor and interest expenses, American Restaurant Partners, a 64-unit Pizza Hut franchisee, reported a 77- percent drop in net income, to $93,380, on a 2.5-percent rise in revenues, to $8.7 million, for the third quarter ended Sept. 30.

"We experienced double-digit growth in 1990, but that is hard to sustain," said Gene Baldwin, chief financial officer of the limited partnership.

Net income was driven down by a $67,000 increase in interest expenses stemming from the construction of three new restaurants, which accounted for the company's slight gain in revenues.

Income was also pared by a $100,000 rise in labor expenses over the prior-year figure. Baldwin attributed the increase to last April's rise in the federal minimum wage, to $4.25.

Despite the difficult quarter, however, the company's profits year-to-date are running 12 percent ahead of last year's, with a nine-month tally of $1.3 million.

The company is expected to release its full-year results later this month. Baldwin projected that net income, revenues and comparable-store sales would be flat. The company posted a net income of $158,471 for the fourth-quarter ended Dec. 31, 1990.

Baldwin said the company would post a decline in cash flow for 1991. American Partners disclosed a 58-percent drop in cash flow, to $238,258, for the first nine months.

In an effort to increase cash reserves, Baldwin

(See PIZZA HUT, page 37)

Restaurant companies begin 1992 with burst of activity

by Milford Prewitt

NEW YORK — Several restaurant companies began the new year with a flurry of stock-market activity, including buybacks, new issues and private placements.

Their objectives ranged from reducing debt to increasing working capital to funding renovations to fueling expansion.

Among the active companies:

• Two Pesos, Houston, said it plans to repurchase 200,000 common shares for an indeterminate time at a share price to be set by management. The company said investors have not responded to Two Pesos' improved operating results.

"The decline in the stock price represents an opportunity for the company to acquire our shares at what we believe is a good value," said Ghulam Bombaywala, president and chief executive officer. The company's share's closed recently at $1.63.

• Marriott Corp., Bethesda, Md., sold $200 million in convertible preferred stock to Merrill Lynch and Goldman, Sachs & Co. in connection with an oversubscribed public offering that closed late last year. The shares can be converted to Marriott common stock at $17.40 a share and can be called by the company after Jan. 15., 1996. The hotelier said the money would be used to repay debt.

• Sandwich Chef, Birmingham, Ala., completed the sale of 140,000 shares of the company's common stock in a private placement. The block was sold to three institutional funds and two of the company's directors for $9.12 a share. In recent trading, the company's share price closed at $9.50.

• Cooker Restaurants, Columbus, Ohio, sold 450,000 shares of common stock, at $25.50 a share, raising $11.4 million before underwriting fees and expenses. The company said the net proceeds would be used to retire bank debt, finance the development of new restaurants, remodel existing units as well as for general corporate purposes.

FOOD PRICE OUTLOOK

Are rising beef prices just temporary?

by Patt Patterson

The price of beef is moving up again, not much, but a few cents a pound — so far. Industry observers say this is due to poor feedlot conditions in the Midwest and increased consumer demand. This column has often noted that the prices paid by foodservice operators are driven by consumer demand as well as by supply. Both market segments draw from the same supply pipeline. When consumer demand puts pressure on supplies, it affects the operator, too.

Rains and snow in the Midwest have made feedlots muddy, which slows animal growth. Retailers are featuring beef in their weekly specials now that the holidays are over. As a result, the price of beef has moved up a bit. The question is whether it is a temporary hike or whether it will continue to rise over the long term.

Out on the horizon are some clouds. The price of corn — a major cattle feed — is moving up. Less corn was planted last year — about 2 percent less — but demand for both wheat and corn by the former Soviet republics has also increased, cutting into available domestic supplies and pushing up prices. That could make cattle feeding more expensive, and beef prices would follow.

The good news is that pork and eggs are down, broilers and turkeys are below last year's levels. That could change if feed prices rise sharply. But right now pricing is very favorable for operators.

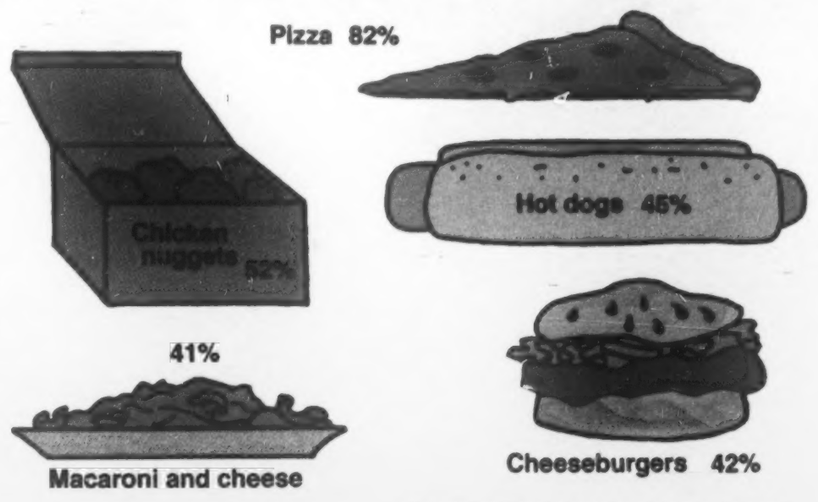
Frozen cod prices continue high on low imports. Canadian supplies are depleted, and there's no immediate hope of any improvement in catches . . . If you have catfish on your menu, watch supplies. Many catfish ponds are out of production because of oversupply and low prices for the past couple of years.

Tomato and tomato product prices may move up in the last half of this year. California farmers are indicating their intentions to plant less acreage in processing tomatoes. They were hurt this year by low prices for the second year of bumper crops. It will take a while to work off large packer inventories, but if planting plans don't change, expect prices to be higher by the end of the year.

FACT FILE

Kiddie food

(foods named most often by parents as their children's favorites*)



* Respondents could choose more than one

Source: Gallup poll of 1,034 parents of 3- to 11-year-olds

FINANCIAL DIGEST

NRN Index starts 1992 with record high

NEW YORK — The NRN Stock Index, the broadest gauge of restaurant stock activity, started the new year by setting a new record, closing at 299.81 — a 45 percent year-over-year valuation gain — for the trading week ended Jan. 3.

On a week-to-week basis, the index was up 9 percent.

Investors' hunger for small capitalized stocks drove the index to that level. The same desire has fueled growth in the equity markets for the past two years and has propelled NASDAQ, the giant over-the-counter stock exchange, to several record highs in recent weeks.

Of the 75 restaurant issues on the NRN Index, 45 stocks advanced during the week, 13 declined and 17 were unchanged.

Some of the big percentage gainers among restaurant issues were Ground Round Restaurants, up 35 percent, to $5.75 a share; WSMP Inc., up 29 percent, to $5.50; Applebee's International, up 12 percent, to $15.75 a share; and Ryan's Family Steakhouses, up 15 percent, to $9.50.

Restaurants give Morrison a profit hike

MOBILE, Ala. — Strong operating earnings from two restaurant divisions boosted Morrison Inc.'s net income by 20 percent, to $8.9 million, for the second quarter ended Nov. 30.

Revenues for the diversified foodservice company rose 6 percent, to $260 million, for the three-month period. Those at the half-year mark measured 6 percent above the year ago tally, at $502 million.

Net income for the six-month period was $14.6 million, up nearly 19 percent.

Operating earnings for the company's Ruby Tuesday and Silver Spoon restaurants were well ahead of last year's figures, while L & N Seafood Grills, a higher-ticket restaurant, turned in lower results because of the recession, company officials said.

Morrison's opened 13 new specialty restaurants during the quarter. The company now operates 147 Ruby Tuesdays, 36 L & N Seafood Grills, 15 Silver Spoons, 801 Morrison's Custom Management contracts and 168 cafeterias.

Sonic Corp.'s 1st-Q net income soars

OKLAHOMA CITY — Offsetting increased advertising and labor expenses, Sonic Corp. said its net income zoomed to $1.5 million in the first quarter ended Nov. 30, for a 139 percent year-over-year gain.

The company said it benefited from a 2.7-percent increase in menu prices and lower corporate overhead. In addition, revenues climbed 23 percent, to $115.2 million. Sonic attributed the revenue growth to a 6-percent gain in same-store sales and the addition of 10 new restaurants.

Systemwide sales were up 14 percent, to $139 million.

Meanwhile, the company said it has entered an agreement with a major shareholder, allowing the sale of 300,000 shares of stock within 60 days of the filing of a registration statement with the Securities and Exchange Commission. Sonic said the agreement would cover about 663,657 shares of its stock.

Good Times looses $290,000 in F '91

BOULDER, Colo. — Good Times Restaurants, a four-unit double-drive-thru burger chain, said its losses narrowed for the year ended Sept. 30, to $290,000, on a 26-percent hike in revenues, to $2 million.

A year ago the company lost $425,000.

"We are very pleased with our positive sales trends and reduced net loss," said E. Edwin Massey, president and chief executive. "On an individual basis each Good Times restaurant is doing extremely well. The net loss is attributed to overhead incurred at the corporate level."